



PR 24 and beyond: Reflecting customer preferences in future price reviews

The Hafren Dyfrdwy Customer Challenge Group (HD CCG) is pleased to respond to Ofwat's discussion paper '*PR24 and beyond: Reflecting customer preferences in future price reviews*'.

Summary

HD CCG welcomes Ofwat's three strategic goals for the water sector, namely to: transform companies' performance, meet the long term challenges ahead, and deliver more for customers through greater public value.

To achieve these goals both the regulator and the monopoly water companies must engage more broadly and deeply – and with greater transparency - with its stakeholder/customer base as it develops future investment plans to deal with both long term strategic matters such as meeting environmental concerns or developing resilience as well as when it has to react to unforeseen events such as the Covid-19 pandemic. To *reflect* the voice of the customer – as a consumer and as a citizen – well designed, appropriate and multi-faceted engagement is fundamental. The CCG believes that the process of challenge by local stakeholders with a knowledge of a company's area, demography, geography and socio-economic aspects is fundamental and provides many benefits to the regulator, the company and the customer.

There is further scope for further reform and restructure of CCGs at a company level, but it is strongly held that local customer challenge groups are an effective way of improving and embedding customer engagement within companies. This process which started in PR14, and was further enhanced in PR19 has greatly improved company focus resulting in increased customer trust.

The HD CCG would have welcomed the opportunity to feed in Ofwat's discussion paper last Autumn as has been originally planned and hope that its comments will be of interest to Ofwat as PR24 approached.

Responses to Consultation questions

Q1: Do you agree with the goals we have proposed for customer engagement at future price reviews? If not, why not?

The goals set out in Ofwat's recent paper highlight the broad areas that need attention throughout the process and the box diagram usefully articulates the challenges therein. The goals seek to build on discussions around the PR19 process and focus on areas requiring improvement. The impact of the goals would be strengthened if they were mandated to be applied not only to the PR process, but to all activities of the companies, on an ongoing basis. There is much opportunity lost when companies restrict engagement to five yearly engagement activities, as opposed to developing broader and deeper engagement on a day to day basis.

Much of the Ofwat document considers changes to processes and structures with an underlying feeling that greater uniformity and consistency of approach is a desired goal. Water companies and the customers they serve differ greatly in their sizes, locations and challenges and available solutions are likely to be just as diverse.

To best gauge a company's contribution to each of the six PR24 goals Ofwat ought to mandate each company to publish its overarching customer engagement framework with clear links to each goal. Such a framework would include business as usual data, ongoing longitudinal research, behavioural /observational studies as well one off or deep dive activities relating to specific areas to support operational activity, performance setting and business planning. As the framework would need to integrate with a company's overall business strategy - the triangulated results would be far more robust, wide ranging and reliable. The oversight of a local scrutiny and challenge mechanism such as the CCG, would be key to ensure this framework would deliver for the rigours of day to day company activity as well as for a PR.

This well designed framework should then avoid the need for monumental and expensive pieces of one off research focussed solely on the PR and instead would better foster a company's understanding of customers' needs evidenced by multiple sources of evidence. It would also provide a framework from where collaborative research with other stakeholders – perhaps at a regional or nationwide level - could evolve.

Q2: Are there any other goals which you think we should have for customer engagement at future price reviews?

It is important to recognise that customer engagement is far more than customer research. Better informed and engaged customers, with high levels of service and customer satisfaction should be the goal for any water company. Evidence of more collaborative activity between a company and its customers to co-create solutions to challenges for example could be seen as a desired goal.

Q3. Do you agree with the principle that in areas that are of common concern to all customers within a nation, evidence of customers' preferences should be generated in a consistent manner such that results are comparable? If so, why? If not, why not?

The paper gives little information about what is meant by generating evidence in a consistent manner – would research be centrally commissioned, designed and delivered eg to include the same questions, to be undertaken by the same contractor, to be done at the same time and so on? Whilst consistency and comparability are very useful tools for CCGs and regulators alike, these ideals must not replace or negate the need for locally designed, tailored research. For example companies could be required to have an agreed consistent approach for some areas of customer engagement within their local research. This would be embedded at the outset within their framework so that the results could be comparable.

Whilst there is no doubt that customers' common areas of concern (their priorities) could be captured by nationwide research to provide evidence of their 'preferences' (ie a choice of something over an alternative) would seem much less possible or practical however. Particularly so given the subjective nature of the concept and the very many permutations of options/service levels/targets/bill profiles that water companies could offer their customers.

(As an aside, the change in vocabulary used by Ofwat between PR19 and PR24 is also noted, particularly the prevalent use of 'preference' in PR24 documentation. Preference appears 80 times in the paper (including headings) whereas 'priority', a feature of much PR19 documentation does not appear once. This causes some difficulty in responding to this question as discussed below.

A 'preference', a person's internal response (something they would 'like') differs to their 'priorities' often driven by external stimuli and expressed as the importance they place on something (we 'must' be protected from flooding). As such, customer preferences are more likely to differ from person to person and from time to time than would customer priorities. For example a customer's priority may be to reduce their water consumption and/or their water bill, but their preference may be to have long baths or to water their garden without restraint. Even where customers may prefer a higher level of service in an area, this does not necessarily mean that they are willing to pay more for it. They may rightly expect their company to do better as a matter of course.

In short, preferences and priorities are inherently different. A customer's prioritisation of common concerns may be captured with nationwide research but as preferences are a choice between one alternative over another, this is best done at a local level.

Q4. If we make use of collaborative nationwide research in future price reviews:

☐ Which aspects of business plans do you think should fall within the scope of this research?

Without understanding the practical implications of nationwide research (ie jointly commissioned, drafted, use of same contractor, use of same questions, same context) this question is difficult to answer.

We hold as true the findings of CCWater and Afallen that customers find it less appropriate to be consulted on the more technical aspects of the business, *'in areas such as: regulatory metrics; setting performance targets and penalty thresholds; and other complex areas such as Willingness to Pay (WTP) and very long-term planning and where the bill increases are seen as negligible'*. (CCW, 2020)'. If customers do not understand what is being asked of them, or the methodology is used incorrectly questions raise about the reliability of the results.

Research tailored to the specific needs of a company and its customers is hugely valuable. It could be coupled with collaborative research into areas of shared challenge/broader thematic areas such as general affordability, vulnerability, resilience and so on. This could be very useful, especially when looking for shared solutions and/or co-creation opportunities.

Other collaborative research related to more process oriented areas would be welcome eg how has the ODI regime benefitted customers and companies; what is the transferability of Ofwat assessed best practice during PR19 (customer engagement techniques, research triangulating, managing assurance and so on) would be hugely beneficial now to feed in to and influence a more effective and efficient PR24 for all.

There would, of course, need to be consideration given to the differences in policy and culture between Wales and England.

☐ Which organisations do you think should be involved in steering this research?

Ofwat, Welsh Government, UKWIR, CCWater, Companies, Independent CCG Chairs plus another utility body eg Ofgem.

☐ When should this research be undertaken?

The timing of any research depends upon the type of research, its purpose and where it fits in to the research framework. For example general priority/ benchmarking research is necessary earlier on in the process whilst research in to differing solutions for resilience, affordability or acceptability proposals would take place at the appropriate time later on in the process. All research, including its timing, must be set out at the beginning of the process within the framework. This ensures a clear line of sight.

☐ How should this research account for differences between England and Wales?

This would be for the Wales PR14 Group or similar to agree.

Q5: To what extent do you think it would be necessary for us to provide guidance on customer engagement, assurance and other issues at future price reviews if we made – or did not make – use of collaborative nationwide engagement?

Regulators need to be clear how they will use and how they will weigh/triangulate stakeholder evidence, including challenge groups contributions, in their assessments of companies' business plans. To this end guidance on Ofwat's expectations of company's approaches to customer engagement at both a nationwide and local level remains a key aspect.

The methodology adopted by the regulator for all stakeholders to follow must be clear, but there must be flexibility for tailored solutions as appropriate, so as not to stymie innovation. Results produced by nationwide or local activities need to be 'sense checked' and local independent scrutiny is paramount to the process. This builds customer trust. Challenging the wording used in research materials, the graphics used, the languages translated in to, the locations where customers are contacted may seem trivial but it is essential to ensure the customer insight derived is balanced, fair and meaningful. Eliciting accurate and valuable customer data is fundamental to build well researched business plans acceptable to the customers who pay for them.

Q6: To the extent that you consider further guidance is necessary, what areas should this cover?

As it was not always clear how the role of CCG informed Ofwat's view of business plans, guidance to companies on how to benefit the most from independent local level challenge and scrutiny, using best practice as assessed by Ofwat during PR14 and PR19, would be welcomed.

Q7: Are there other models which you think we should consider for providing assurance at future price reviews? If so, what are the benefits of these alternative approaches?

The need for independent, local challenge, scrutiny and oversight as part of the PR process and for ongoing customer engagement activity and general performance monitoring between PRs is as great now as ever.

The notion that nationwide research may negate the need for local CCGs seems incongruous. There would be more need than ever for a local, independent group to sense check the results and the interpretation the company takes from it. The worst served customer can continue to 'fall through the cracks' of more generic, aggregated research where the outliers become less visible.

The process would lose a great deal should the company specific customer challenge aspect of the process be lost. The local knowledge and experience needed to see and challenge proposals, sense check results and qualify company interpretations is invaluable. The enthusiasm and desire of a committed local level group to ensure the company performs to the best of its ability, for the benefit of the customer it serves must not be underestimated.

That is not to say that the process cannot be improved upon. Whilst any suggestion that a CCG financially supported by a water company is potential evidence of its capture is totally refuted, discussions around a more independent/arms length method of remuneration are welcomed and any perceived issue easily rectified.

The PR19 review for Welsh Stakeholders, compiled by Afallen, gives some very interesting options for arrangements above a company level grouping worth considering for PR24 and are not reproduced here.

Q8: To what extent do you think that the research techniques which have previously been used in the water sector are suitable to enable companies' business plans and our final determinations to reflect customer views? Do you think any particular approaches should be revisited?

Both the Afallen and the CCWater review of the PR19 process highlight the generally accepted concern that much customer research is not understandable or meaningful to the customer at which it is targeted. This risks calling the research results in to question. Quantitative surveys covering complex, technical matters are unlikely to elicit useful data whilst qualitative or deliberative research where informed views are used may not reflect a representative spread of customers given the smaller numbers involved. Assumptions made by revealed and stated preference techniques especially those where prioritisation questions are approximated to (arbitrary) figures is concerning. The appropriateness and usefulness of Willingness to Pay must be revisited as much as the weighting which is attached to the results.

A more considered use of longitudinal behavioural and immersive research may provide more realistic information to gauge/forecast changes in customer attitudes and behaviour and therefore could be more accurate tools than one off pieces of research that rely on a customer's ability to recall information, or on customer's perceptions based on previous (good or bad) experience.

From lessons learned reports it would seem that some customers would prefer qualified experts to be making the decisions in some areas and further insight in to this regard would be useful.

Q9: Do you think that there are alternative approaches that we might usefully adopt in water, including those used in other sectors and potentially outside the area of economic regulation? If so, which techniques and why? If not, why not?

In short, yes. The Afallen and CCWater report suggest some alternatives. The need for local oversight/sensechecking/contextualising cannot be achieved at a regional level however. It would be unwise to disregard the impact of a local CCG as a driving force for improvements as well as the competitive aspect of such a local group wanting its company to deliver frontier shifting/best in class service for its customers. This important element in driving

improvements would be lost with regional/nationwide CCGs with no specific company focus/ambition.

Q10: Are there any areas of the price review where the scope to solicit informed opinions from customers is intrinsically limited?

With expert design, thought and time customers should be able to provide informed opinions on any subject. Whether these opinions are representative of the wider customer base is another matter however. As provided in a previous response, complex areas relating to financial metrics, setting of ODI rates for rewards and penalties, establishment of stretch targets and so on would seem to be areas where the ability to solicit useable customer views is limited. Even affordability relating to specific bill profiles is difficult to gauge as there are many parameters that could come in to play eg impacts of rewards and penalties from previous years/previous AMPS/current years, inflation and so on.

Q11: Do you think there are other ideas we should be considering for shaping customer engagement at future price reviews? If so, how would these ideas help deliver on the goals proposed in this paper?

On times the document as presented appears to equate customer engagement with customer research. The differences between capturing customer priorities and reflecting customer preferences should also be further explained.

The self proclaimed purpose of the paper is to better reflect customer preferences in the price review process. To do this properly would be to ensure companies seek the views of their customers every day from a wide range of sources. This paper should encourage companies to embed such processes on an on-going basis, such as with a local challenge and scrutiny vehicle such as a CCG. Not to do so is a missed opportunity.

Not only do companies need to improve their customer engagement as it relates to the PR process, they need to do it for the successful day to day operation of their company. Developing customer engagement and research frameworks to plan and capture BAU data, observational data, one off research items and national data (including from other utility providers and stakeholders) along with non-water specific data relating to areas such as general affordability and vulnerability issues could usefully be mandated. This could be key to providing assurance that the information the company uses is relevant, up to date, representative and grounded in reality as opposed to a five yearly snapshot in time.

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January 2021