



PR24 and beyond: Consultation responses

As the independent Customer Challenge Group (CCG), known as the Water Forum, for both Essex and Suffolk Water (ESW) and Northumbrian Water (NW), we are pleased to have the opportunity to offer comment and reflections on Ofwat's consultations on PR19 and beyond, and in particular on how customer preferences are reflected in future price reviews.

It is vital that customers trust their water company and can see how their company is responding to and taking into account their preferences. This lies at the heart of the Water Forum's role of providing independent, regular and ongoing challenge, on behalf of customers, to the company's strategies, plans and performance.

Our membership includes representation from a wide range of people, organisations and sectors – from consumers, agriculture and business to communities and industry regulators. Collectively, we exist to help ensure that the company uses a wide range of robust engagement methods customer engagement methods; and that the decisions it takes are the best possible for its customers.

The decision-making can be complex, because of the breadth of interests amongst customers and the scale of operations of a large water supply and wastewater treatment organisation.

This is where an open and enquiring culture comes in – and by directly seeking the views of its customers and stakeholders about Northumbrian Water Limited's (NWL) activities, good and effective customer engagement which encourages openness and transparency and strong input, the company will continue to develop a much better understanding of how it is performing, what its customer and stakeholder priorities are and how it is delivering on those.

PR24 and beyond: future challenges and opportunities for the Water Sector

We welcome the Ofwat Consultation and support the commitment to adapt the regulatory frameworks to ensure that the needs of customers, the environment and wider society are met. However, we are concerned that there seems to have been a big leap between earlier discussions (in which we were included) and the production these papers and a number of our members commented on how it is not easy to see the logic and flow of conclusions from one exercise to the other.

This is an important issue for us as the outcome of this review and consultation will provide context for all water industry activities for the future and therefore 'getting it right' is very important for customers. We welcome the creation of a **'Future Ideas Lab'** as a potentially useful tool for companies to hook in to, and to consider in the light of their individual and collective approaches to innovation, among other things.

The 12 questions posed in the *PR24 and beyond: Future challenges and opportunities for the water sector* consultation capture many of the current matters facing the industry; they reflect on many of the issues which emerged during PR19 and which are likely to become even more central to customers' thinking, concerns and priorities such as the environment and climate change.

The role water companies can, and in our view should, play extends beyond their core purposes to the wider role of corporate social responsibility and public value. In NWL's case we have, for example, seen the company putting considerable effort into understanding and developing its wider contribution to the economy, society and the environment, and being open and transparent about this through the publication of its 'Our Contribution' report. This type of approach should be broadly encouraged across the industry, to demonstrate the added public value that water companies can bring in their localities. This will require a deep and evolving understanding of their customers' needs and priorities locally as well as an understanding of 'public mood' more generally.

As a Water Forum we provided challenge and ideas in the development of NWL's approach and on how they communicated their wider impact. And we believe that good collaboration should also be encouraged between the sector and other industries – to further explore the public value that customers increasingly expect from industry more generally; and around innovation, including across utilities and other sectors. The encouragement of further shareholder investment into those initiatives that have wider public value as well as critical investment to secure improved services should also be undertaken.

Underpinning the future for the industry is a real need to ensure that companies build on their customer engagement activity and develop it in a way which is meaningful for its own customer base; and delivers better outcomes for them. This has been the mantra for many years now and is the right thing to do.

On many, many issues this can only really be done meaningfully at a local level, through a company's direct contact with its customers and through local research and engagement. A key role for the CCGs has been to monitor, assist and scrutinise the results of this activity; among other things, this has provided an extremely useful lodestone for companies to work with and to help ensure that customer needs and preferences are taken into account in its business planning process and service delivery.

We turn then to the key paper on customer engagement.

PR 24 and beyond: Reflecting customer preferences in future price reviews- a discussion paper

Customer engagement in PR19 was in our view a great improvement on that of PR14. Customers would expect continuous improvement in this regard and the consultation is therefore welcome. We believe it will be important to determine the

purpose of customer engagement and research (noting that these are not always the same thing or at least with the same emphasis) – doing this should help determine what needs to be done and by whom.

On a point of principle, there are tensions between Ofwat's proposed goals and ideas. A national approach to some elements of customer research could bring added value for the customer in some defined areas relating to the regulatory framework such as common performance indicators, especially where there is genuine and unnecessary duplication and therefore potentially unnecessary cost.

In addition to a national approach in such areas, having been encouraged over many years to understand and deliver customer preferences and priorities, wherever possible, we believe company-led research is also essential. Water companies need to continue getting closer to their customers, and triangulating their findings to give a richer, deeper picture to inform decisions and ensure that customers can see how they have influenced thinking – for example in their ultimate consideration of the balance between bills, investment and services during the business planning process and beyond.

We understand/empathise with the challenges for Ofwat in assimilating the approaches taken by different companies; and recognise the need to encourage some companies to go further and to advance their customer engagement. That said, we consider that there is good work to build on and that wholesale change in structures described in the consultation paper therefore risks 'throwing baby out with the bathwater'.

CCGs are well positioned to take a local/regional view on customer engagement. If the regulator has issues with the approach taken by particular CCGs then these should be aired and explored with those CCGs; and checks and balances put in place to ensure a degree of appropriate consistency in the approaches CCGs take and in the understanding of their role.

Our view is that if a key question is 'how are customers' needs and priorities understood and delivered by water companies going forward', the answer is evolution not revolution, particularly in an era of tightening economic and social challenges, climate change, the environment and dealing with the fall-out of Covid and its consequences. Building on, expanding and helping companies mature their customer engagement at the local level will be critical, and focused, independent CCGs are an important tool for the customer, company and regulator to scrutinise activities and actions both during price reviews and beyond.

As the CCG for NWL we genuinely had the opportunity to engage with the whole PR19 process and to shape its outputs – the company welcomed and used our challenge to ensure its customer research and engagement was wide-reaching and innovative and accurately captured both the needs and aspirations of its customers; and that these were reflected in the business plan.

Regional or national CCGs would have the weaknesses you already identify and few strengths – they would be 'neither nowt nor summat' – reflecting neither Company geographies nor communities, among other things.

Since the conclusion of PR19, the Water Forum has continued to scrutinise, challenge and monitor NWL's performance as it moves forward. We are, of course,

awaiting the outcome of the Competition & Markets Authority (CMA) process, but have not waited for this to conclude before considering how we might evolve to operate even more effectively in future – whatever the outcome of the CMA process, and of Ofwat’s consultations, we are already primed for the future task, taking into account our own ‘lessons learned’, and those emerging from national level experience.

We were pleased to see that Ofwat acknowledged the hard work and many hours that members put into our role during PR19 but are disappointed that the criticisms of CCGs appear to be levelled across the board without any real evidence. We were proud of our report and consider it was open, straightforward, and genuinely reflected our findings. We stuck to our knitting and were clear about what that knitting was, and while government policy offered some context for us, none of this was company driven.

In our report, we reflected what we saw and heard from customers and assessed this against the customer engagement processes that we monitored. We would, of course, not support proposals that are not underpinned by sound technical or other evidence and would not want customers to pay twice for work – we were therefore keen to ensure that the regulator closely examined some of the proposed resilience schemes that customers said they supported. But first we had to make the point that customers had indeed said they supported the proposals. And if customers supported those schemes it seemed to us that they would want to see them delivered if at all possible – enabling a ‘golden thread’ of engagement throughout the business planning process – or, if approval was not given, have an explanation of how the company would deliver the outcomes that the proposals were intended to achieve. It was not clear to us how Ofwat reflected customer views in its Draft Determination (DD) and Final Determination (FD) and we think this is an area for improvement in PR24.

We have just about completed our review and our restructuring. This commenced with the appointment of a new Chair in 2019, and agreement to undertake a thorough examination of how we operate.

We have maintained our independence from the company through strong governance and have always ‘set the agenda’. We have a Chair, appointed independently of the Company through the Water Forum ‘Nominations Committee’, our own ‘in camera’ sessions and we work closely together as a group. At the close of each meeting, members are invited to assess how effective the meetings have been – doing so anonymously so that they can say what they wish. We operate a journal for customers and stakeholders; and have always rooted our remarks or conclusions in what we have heard from them.

During PR19, where we had challenges or suggestions on customer engagement processes or their findings, we made it clear what our challenges were and how we thought they impacted on the company’s conclusions or actions.

In reflecting on our strengths and weaknesses during PR19, we acknowledged that it was difficult to ensure that we kept on top of everything we wanted to through our quarterly full Water Forum meetings. We resolved this by undertaking deep dives, workshops and other mechanisms to engage more closely on particular issues. Going forward we are formalising an approach which will enable us, as a group who are very much part-time, to continue to play an active role on an ongoing basis.

The Company has said that it very much values the input of the Water Forum, and its actions underscore its words. It is clear that not all CCGs are the same, so we encourage Ofwat to explore how this could be achieved across the whole sector. We would welcome its participation at our meetings to observe this dynamic in action and take some lessons learned into its thinking for PR24.

In response to the specific questions posed in the consultation.

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

Broadly, our view is that the goals make sense. That said, we see some inherent tensions between some of the goals – viz, providing prescriptive guidance and enabling companies to take responsibility for their relationships with their customers. Strong end-to-end customer engagement, the likes of which we saw NWL deliver during the PR19 process, enables companies to build relationships whilst undertaking its customer research. Starting with ‘defining the conversation’ of what customers want to talk about, through to acceptability testing of the business plan.

We consider that that the goals need further definition to be meaningful – they need more clarity and to be underpinned by an understanding of what is trying to be achieved through customer engagement, and how the regulator will listen to what customers say.

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

If the industry is to ensure it delivers for its customers, the local customer voice must be heard – the goal should be a clear line of sight between local engagement and consultation and the business plans submitted by the company. By way of example, during PR19 it was only through local research that the priorities for enhancement schemes and risk reductions became clear – in NWL’s case, this led to the proposal for a flooding Performance Commitment in the north and resilience schemes in the south.

This may not be a goal in itself but an outcome ought to be that there is a clear ‘golden thread’ narrative of the customer voice throughout the various regulatory stages including DD and FD; and, importantly, at the beginning of the price review process to inform Ofwat’s strategic thinking about what is expected of companies and those who are assuring their processes and practices.

We recommend that there is a goal for all parties involved in the Price Review process to understand the processes Ofwat will use to apply the customer voice to its Draft and Final Determinations.

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

This seems on the face of it a simple proposition. Comparability is important where it can be achieved without losing evidence derived from perhaps nuanced approaches. Apples must be compared with apples – and therefore any national research needs to be carefully designed for issues that can be dealt with at that level – those that relate to the regulatory framework for example.

One of the drawbacks of previous research is not comparing apples with apples – this would be an important consideration in future. For example, in terms of business plan acceptability, which the Company we scrutinise undertook, we saw how support for resilience investments was tested and the conclusions reached; however, other testing of the Draft Determination did not specifically look this aspect – this led to a debate about whether customers really

were willing to forgo an element of their proposed bill reduction, despite following an extensive engagement process which sought to understand what priorities customers were keen for the company to pursue, and how these should be delivered.

In some areas there are clear local differences in geography, socio economics, affordability and so on which can be lost if a national approach is taken.

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?**

Collaborative national research would need to be very carefully designed as there are few genuine areas of common concern among customers which aren't shaped by a whole range of local factors. For example, in the two areas that NWL covers, key issues of customer concern are often very different because of geography and weather – in Essex and Suffolk, customers are very concerned about water supply; in the Northumbrian area the opposite if true, as flooding is a real concern.

There are some areas which would however lend themselves to a national approach – including those which relate to the regulatory framework such as common performance indicators.

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

Depends on what is undertaken but Ofwat, companies, CCWater, a group of CCG Chairs and others appropriate to the agreed topics. Furthermore, it would be a positive step if all regulators/ government departments could streamline their ambitions and ask questions around the wider water agenda to ensure a joined-up approach to create win-wins for all in the research process.

- **When should this research be undertaken?**

Depends on the topics agreed; and should be timely enough for companies to be able to make changes to their business plans as a result of research findings.

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

Depends on the topics covered. We note that if the regulator accepts that there are differences between England and Wales then it should equally recognise that there will be differences between regions, and that any research should reflect this.

Customer engagement in the business planning process is an iterative experience where customers can follow through a 'journey' and see a golden thread of where and how their views have been taken into account. By its very nature this should be conducted at a local level.

The same is true of customer engagement done as part of a company's day to day activities, an activity that is extremely important to ensure companies are delivering for their customers. We see companies such as Northumbrian Water take customer engagement incredibly seriously – making sure that it is not confined to price reviews and is undertaken as a matter of good practice in business as usual.

Looking to the future, and to where there is room for improvement, we have challenged the company to work with us and others on creating an ongoing research triangulation process that can be utilised and sustained as part of business as usual, helping the company to better understand customer views and preferences from different perspectives and in the round.

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.

It would be important to provide a framework – to set expectations about what such things are aimed at achieving, rather than detailed prescription. However it would be useful, for example, to set out the different types of assurance of customer engagement expected e.g. independent expert assurance on engagement processes; assurance, monitoring and challenge by CCGs of the application and impact of customer engagement and its outcomes in localities (and there are clear differences of priorities and needs in different areas); also Ofwat's own assurance processes on its DDs and FDs, and on its strategic thinking prior to price reviews, and any research on issues such as Common Performance Measures.

We would recommend including guidance on engaging with future bill payers – there are some examples of emerging best practice that could be built on for this important customer group.

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

See above. For CCGs, clarity over what is expected of each CCG from the outset is important. And good engagement from the regulator with CCGs would be of assistance – we believe this could work well without being onerous, especially with the better use of technology that we are all now using as a matter of course making it easier for Ofwat to participate in CCG workshops or meetings.

We can see how compelling it must be in an era of scarce resources, for the regulator to take the line of least resistance and work at a national level, but we fear that this would risk ultimately setting the sector back in the strides it has undertaken to genuinely understand and deliver customer priorities and preferences where possible.

It would help all involved to get more guidance up front in the price review process on how to balance customer priorities and other elements that Ofwat considers in its determination processes.

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 Ofgem model has provided a different approach but all models have a range of strengths and weaknesses.

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 determination to reflect customer views? Do you think any approaches should be revisited?

We would reiterate that techniques need to be built on and developed in line with best practice and local circumstances. Different techniques are needed for different circumstances and geographies, among other things. The delivery of this can best be achieved locally but we would encourage best practice sharing among companies and Ofwat, and other bodies such as CCWater, and those outside the industry.

We suggest that the approach of working with customers to 'define the conversation' that they want to have with their water company is a strong starting point, as it does not presume to understand the subjects that customers want engagement with. Doing so at the beginning of a price review process sets the tone for the ensuing engagement process. We believe that this is an example of an innovative approach that Ofwat could help to promote and permeate across the industry.

Q9. Are there any 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?

A better understanding of ‘what good looks like’, defined through collaborative workshops that draw upon what is ‘out there’ in the industry, would be of immense value – led by Ofwat at a national level, the outputs of this exercise would give clarity and useful guidance on what constitutes good quality customer engagement from .

Given the move to online working and engagement, accelerated as a result of the pandemic, new techniques are now both available and should be explored. Continued innovation to find and/or develop new, non-face-to-face techniques will be vital.

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

Financial matters including cost of capital. That said, during PR19, Northumbrian Water engaged with customers on how best to pitch ‘Our Finances Explained’ rather than simply produce them. That research involved customers in vulnerable circumstances including unemployment, low income, long term illness, physical disability and carer responsibility.

We noted the feedback that most of the information was interesting if unnecessary for them to know, but the transparency and explanations certainly built up more trust and positive perceptions.

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?

We consider that a way of broadening value and enabling more people to genuinely engage with the industry, during the business planning and business as usual processes, is to join up and align the timing of the various target setting processes involved, as Defra is doing by aligning its flood risk and water quality plans. For example, the Water Resources Management Plan (WRMP) contains very detailed targets that are aligned to the business plans but are done separately and on a different cycle timing-wise. The complexity caused by misaligned processes makes it very difficult for the customers to understand and genuinely engage with their water and sewage companies.

Melanie Laws, Chair

On behalf of the Water Forum for Northumbrian Water and Essex & Suffolk Water

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