

December 2020

PR24 and beyond: Reflecting customer preferences in future price reviews – a discussion paper



PR24 and beyond: Reflecting customer preferences in future price reviews – a discussion paper

About this document

This discussion paper considers how customer preferences might inform future price reviews. We welcome your views on the questions outlined in this paper, including if you are a stakeholder from outside the water sector with an interest in the role of customers in price reviews.

The paper outlines:

- how we have used customer preferences to inform recent price reviews;
- the policy context, including our strategy's focus on customers;
- our proposed goals for reflecting customer preferences in future price reviews; and,
- some initial ideas for future price reviews, which might help us meet these goals.

Our timeline for this work is set out below:

Timeline	
9 December 2020	We publish 'Reflecting customer preferences in future price reviews – a discussion paper'
January 2021	Discussion groups and workshops with the sector
29 January 2021	Deadline for responses to 'Reflecting customer preferences in future price reviews – a discussion paper'
May 2021	We publish our considerations following responses received to 'Reflecting customer preferences in future price reviews – a discussion paper', as part of our broader consultation on our high level approach to PR24

Your response to this discussion paper

We welcome your comments on the questions highlighted in this discussion paper: please email them to PR24@ofwat.gov.uk. The closing date for responses is **29 January 2021**. We will publish our response on our website at www.ofwat.gov.uk during the first half of next year, as part of our broader consultation on our high level approach to PR24.

Unfortunately, due to the closure of our offices, we are currently unable to accept responses by post.

Your responses may be published on our website at www.ofwat.gov.uk. Information provided in response to this discussion paper, including personal information, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 and data protection law. For further information on how we process personal data please see our [Privacy Policy](#).

If you would like the information that you provide to be treated as confidential, please be aware that, under the FoIA, there is a statutory ‘Code of Practice’ which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

We will hold a series of meetings in support of the discussion set out in this paper. If you have not been contacted already and wish to speak to us about this work, please submit a response to this paper as set out above. We will consider any requests for further meetings in the context of the constraints within which we are presently operating as a result of the global pandemic.

Executive summary

Customers are at the heart of [our strategy](#). It is vital that water companies understand their customers' needs and preferences and reflect these in their actions. As a regulator, we also need to understand customers' views and reflect these in our decisions.

This paper focuses on how to reflect customer preferences in price reviews and how this can help deliver on our three strategic goals for the sector, namely to: transform companies' performance, meet the long term challenges ahead, and deliver more for customers through greater public value. We also recognise that price reviews are only one instrument for delivering for customers, with others including our work on affordability and vulnerability and the business retail market.

Our approach to reflecting customer preferences in recent price reviews has delivered a number of successes. Most importantly, we have observed a culture change within the sector: many companies report that they are now better able to view issues through a 'customer lens', although we consider that this should mature further in the coming years. Whatever the arrangements for PR24, we are looking to see companies continue on the path of improving how they connect, understand and respond to their customers' diverse needs. And we expect to see progress made within the 2020–25 period on the day-to-day running of the businesses, not just when it comes to forming plans for the next five years.

We see a number of important issues to address for future price reviews. For example, at PR19 there were issues relating to the reliability and comparability of some of the research undertaken by companies, and how findings were used to inform business plans. Customer engagement was also a resource intensive process, especially for the companies. There is a question about where customer engagement is most valuable, where it has less value and how it is used to develop business plans and set price determinations.

There are also questions about how our assurance model should evolve. This includes whether companies should have more latitude to design the vehicle they use to understand and reflect customer views in their plans, and how we as a regulator obtain assurance that the plans submitted accurately reflect customers' views.

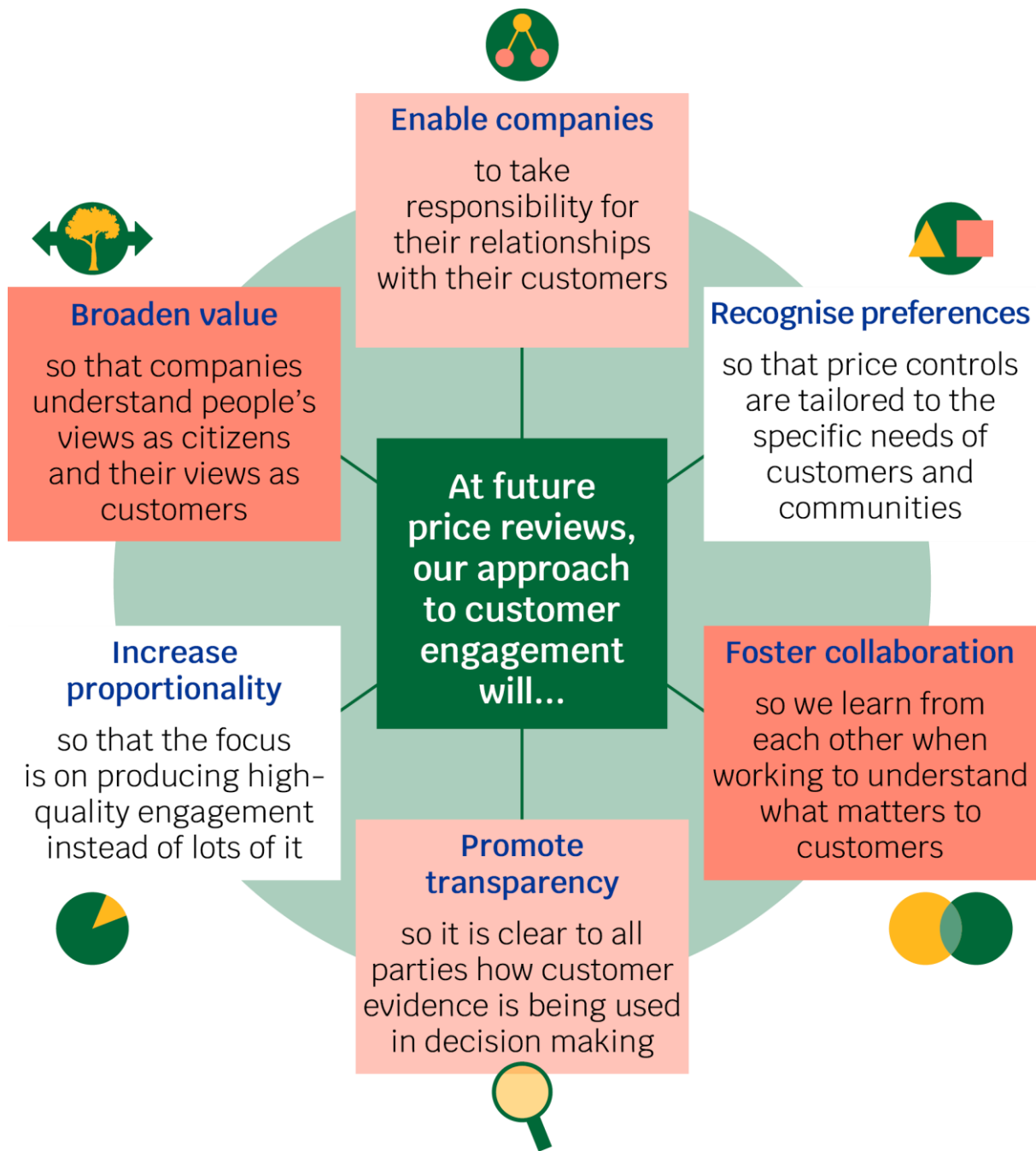
We are aware of changes in the wider environment which might impact on our approach to customer engagement as well. For example, techniques for capturing

customer views are constantly evolving, which may enable us to more accurately understand customers' preferences on certain topics in future years. In addition, we know that customers increasingly expect companies to create public value as well as meeting their own individual needs. To meet these expectations, companies will need to understand peoples' views as citizens as well as their views as customers.

Our review will draw on our own lessons learnt exercise¹, as well as relevant work taking place elsewhere in the sector. For instance, both CCW and Sustainability First have been considering how customer views can be better reflected in price controls. In addition, we will seek to learn from the experiences of other regulators, notably Ofgem, who have also made use of customer engagement panels to support their RII0-2 price reviews.

This paper first considers our proposed goals for how customer evidence might be used to inform future price reviews. We propose six goals: these are outlined in the following diagram and described in turn below.

¹ Ofwat, [PR24 and beyond: Our reflections on lessons learnt from PR19](#), December 2020



Enable companies. At PR14 and PR19, companies were ultimately responsible for managing their relationships with their customers and responding to their needs. We consider that this should continue to underpin our approach at future price reviews and will need to mature further, regardless of how companies may work with each other – and us – when researching customer views.

Recognise preferences. In some respects, customers' needs and expectations of water services are similar across the country. For example, all customers are likely to value access to safe and reliable water supply. However, in other respects there can be differences between customers and communities, for example related to their local geography and the value individuals place on different aspects of service. Differences in the priorities and approaches of the Welsh and UK governments may also affect the requirements for customer engagement. We consider that companies should take account of these differences when developing their plans.

Foster collaboration. There is a wide range of information on customers' preferences available in the sector and a number of organisations with an interest in it. This means greater collaboration has the potential to deliver real benefits, in the form of more consistent and comparable results, reduced costs, shared knowledge and simplified processes. We therefore consider that collaboration between stakeholders should play an important part in our approach to understanding and reflecting customer views in future price reviews.

Promote transparency. As a regulator, it is important that we understand how companies have worked with their customers to develop their plans, so that we have assurance that they are correctly representing their customers' views. In addition, companies and other external stakeholders also need to understand how we use evidence of customer views to inform our decisions. We therefore think that transparency should be a key ingredient in our future approach.

Increase proportionality. Price controls are complex. Customers can sometimes struggle to engage with the full range of topics that are important in a business plan, and there have been some questions over the volume and efficacy of customer research in previous price reviews. There is a question of how to focus customer engagement on those areas where it can have the greatest impacts, and how customers' views might more easily be drawn from wider evidence such as customer contacts and complaints data or inferred from other activity. We therefore propose that proportionality should be considered as part of our future approach.

Broaden value. In line with our strategy, we expect companies to consider not only their customers' direct needs, but also the wider public value they can deliver. In these circumstances, it is appropriate to consider people's views as citizens as well as their views as customers. Our future approach will need to take account of this.

Our paper also outlines some initial ideas for how customer views might feed into future price reviews. These aim to deliver on the goals above – a summary of each idea is outlined below:

Idea 1: collaborative nationwide research to inform common areas of business plans, separately addressing England and Wales

In our view, there is a strong case for using collaborative nationwide research to inform specific aspects of business plans in future price reviews. This approach would help ensure comparability of results between companies across England and Wales, and therefore help better identify differences between companies, an issue which presented real challenges at PR19.

This research would focus on aspects of business plans which are common across companies, such as the design of common performance commitments and their outcome delivery incentives. It could be managed by steering groups (with one for England and one for Wales) including ourselves, CCW, the companies – possibly represented through a body like Water UK – and potentially wider stakeholders as well. Companies would still need to engage with their customers at a local level to understand their priorities as well as to inform their day-to-day operations.

This approach is likely to represent good value for money for customers, since it could minimise any duplicative costs between companies.

Idea 2: consider the need for prescriptive guidance from Ofwat on customer engagement

In the last two price reviews, we issued detailed guidance on how companies undertook customer engagement, including by outlining principles of good engagement and requiring the use of customer challenge groups ('CCGs') for assurance. In many respects, these practices have become standardised across the sector. Nevertheless, there remains continued appetite for further clarity over our expectations.

In future we could adopt a more prescriptive approach, outlining in greater detail our expectations for how companies should engage with their customers, how they should use findings from engagement to inform their plans and how they should provide assurance on this. On the other hand we could step back from specifying requirements, leaving it to companies to decide how they engage, including any role the CCGs would play in this.

If used, collaborative nationwide research would decrease the need for company specific research and assurance. We also observe the development of the role of the CCGs beyond providing assurance for the price review, and the potential benefits of freeing companies and CCGs to decide on the role that customer groups can play. Therefore, we could leave companies to decide how to develop their approach to engaging customers on company specific issues, including how to involve CCGs in this, if they choose to keep using them. Alternatively we could consider using other assurance structures, for instance regional CCGs or national CCGs (with one for Wales and one for England). We would consider the quality and effectiveness of customer engagement as part of our assessment of business plans, rather the form of assurance provided.

Idea 3: better capturing and reflecting customers' preferences

Evidence shows that customers have struggled to engage with company research in the past. One way of addressing this might be to use a broader range of techniques to capture customers' views in future, for example through citizen's assemblies, or via greater use of indirect evidence such as social media or big data. We may also need to better reflect what can be reasonably captured through customer engagement and adapt our framework accordingly.

We plan to work with CCW and other stakeholders in the coming months to better understand:

- the extent to which conventional research techniques can be reliably used in the water sector;
- the topics in the water sector where conventional research techniques are less likely to be effective; and

- whether there are other approaches which might substitute for or complement existing approaches.

We welcome your views on the questions outlined in sections 4 and 5 of this paper. These questions are also summarised in Appendix 1 for ease of reference.

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1. Introduction

Understanding customers' preferences is essential in competitive industries: companies that listen and respond to the needs of their customers thrive, while those that don't struggle. In contrast, monopoly companies in the water sector are not subject to this type of competitive pressure. This is why we have placed an increasing emphasis on customer engagement in recent price reviews:² in our view, it is vital for the sector to keep pace with the rest of the economy, in which businesses are increasingly using innovative techniques to develop and maintain relationships with customers.

At PR14 we introduced a new approach to customer engagement. This relied on companies directly engaging with their customers to ensure they understood their needs, and required CCGs to provide us with assurance of this engagement. We used a similar approach at PR19, with companies once again taking the lead in engaging with their customers and using CCGs to provide assurance.

We need to consider whether this approach is suitable for future price reviews. We recognise the long lead times required for customer engagement, and so are starting work on this area in advance of other areas which are relevant to PR24.

Our approach to customer engagement in future price reviews will be informed by our ['Time to act, together'](#) strategy. This sets out our ambition for the water sector, and customers are right at the heart of this. As it makes clear, customers' and society's expectations are changing: we know that service in other sectors is increasingly personalised and digitally-enabled, and it is important for the water sector to keep pace. We also know that society increasingly expects companies to lead on key social and environmental issues related to their business. In line with this, our strategy emphasises the need for companies to further deepen their understanding of the communities they serve.

Our approach will also be informed by the lessons learnt from PR19. Our own lessons learnt from PR19 have recently been published: ['PR24 and beyond: Our reflections on lessons learnt from PR19'](#). Alongside this, we have also published our PR24 launch document: ['PR24 and beyond: Future challenges and opportunities for the water](#)

² Throughout the remainder of this document, we use "customer engagement" as an overarching term which covers understanding customers' views and preferences. This includes through formal customer research exercises as well as other methods, such as company analysis of data from day-to-day operations.

[sector](#)'. The latter announces the establishment of our [Future Ideas lab](#): we will also consider responses received through this channel when setting our approach to customer engagement for PR24, alongside responses received directly to this paper.

In addition to our own lessons learned, CCW have produced a separate report – '[Lessons Learned from the 2019 Price Review](#)' – which assesses the extent to which PR19 has led to outcomes that reflect customers' needs and expectations. The views outlined in this and other relevant documents are helping to inform our thinking, as well as the preliminary discussions we have been having with companies, CCG chairs, academics, and regulators from other sectors.

The Welsh and UK governments are currently reviewing their strategic priorities and objectives statements ('SPSs) for Ofwat in Wales and England respectively.³ These statements inform our work, with the current SPSs setting out expectations that we will incentivise companies to engage effectively with customers and stakeholders and deliver what customers want. We will consider what implications the revised SPSs may have for our customer engagement policy once these are published.

We also plan to publish an initial consultation on our high level approach to PR24 in **May 2021**. We expect to publish our response to the views received on this discussion paper as part of that broader consultation, with those views helping to set out a framework for customer engagement at PR24.

This discussion paper represents one of a number of interlinked strands of customer-focused policy development work we are currently undertaking. Other work includes:

- **Increasing our customer insight capacity.** We are establishing a new customer research and insight function to enable us to listen to and understand customers better, feeding what we discover into our policy making.
- **Delivering public value.** Our strategy sets out how a stronger focus on public purpose can help water companies build legitimacy in the eyes of the public and help enlist support from customers in tackling future challenges. We have been engaging with a wide range of stakeholders to understand what actions we can take to help support the sector in maximising its public value impact, and will publish a discussion paper on this shortly.
- **Customer affordability and vulnerability.** Our work in this area includes closely monitoring the impact of Covid-19 on water customers and how companies are responding to support their needs. As part of this work we are also contributing to

³ See the current [Welsh minister's SPS](#) and [UK government's SPS](#).

CCW's affordability review, to ensure the arrangements in place for customers are sustainable and robust in the context of the current economic downturn.

- **C-MeX and D-Mex.** This year our new customer and developer services measures of experience (C-MeX and D-MeX) have come into effect. These financial and reputational incentive mechanisms are designed to provide customers in the water sector with excellent levels of service, and have replaced the service incentive mechanism (SIM), which had been in place since 2010. C-MeX and D-MeX allow for companies to receive outperformance payments or incur underperformance payments based on how they compare to other companies. Information collected from the underlying surveys will also help us inform our approach to regulation.

The rest of this paper is structured as follows:

- Section 2 provides a summary of how we have used customer engagement to inform our two most recent price reviews, PR14 and PR19;
- Section 3 provides the policy context, including by highlighting our strategy's focus on customers, discussing the lessons learnt from customer engagement at PR19 and briefly summarising research published by CCW this year;
- Section 4 proposes a set of goals for reflecting customer preferences in future price reviews; and,
- Section 5 outlines some initial ideas for future price reviews, which might help us meet the goals outlined in section 4.

Throughout the remainder of this document, we use light blue boxes like this one to highlight questions where we invite your views.

2. Our approach to engagement at PR14 and PR19

Our approach to customer engagement at PR14 was underpinned by two key ideas. Firstly, that companies with an in-depth understanding of their customers' specific needs would be much better positioned to deliver high quality services that met those needs. Secondly, that companies should 'own' their engagement with their customers, which in turn would help ensure their day-to-day decision-making remained oriented towards customers' needs.

To achieve this we asked companies to directly engage with their customers, and required that they set up independent CCGs to scrutinise this engagement and how results were reflected in their plans. At the same time we introduced a new outcomes framework, giving companies flexibility to propose commitments for various bespoke aspects of service where they could demonstrate this was in their customers' interests. We asked companies to propose service levels and outcome delivery incentive rates for outperformance and underperformance in these areas ('outcomes'), using their estimates of the value which their customers placed on service improvements (which in turn were informed through their engagement).

At PR19 we adopted a similar approach, once again relying on companies engaging with their customers and requiring the use of CCGs to scrutinise their work. However, we also made some changes in light of our experiences during PR14.

We outlined our expectations for companies in our [PR19 customer engagement policy statement](#). This included additional principles of good engagement, building on those we had issued at PR14. It also included further guidance on our expectations regarding CCG governance and transparency arrangements, making clear that we would take more assurance from CCG reports where groups could demonstrate that they operated independently from their respective companies. We later published our '[Tapped In](#)' report, which provided suggestions to companies on how they could involve customers in service delivery, as well our [aide memoire](#) for CCGs which outlined the areas of our final methodology which were most relevant to them.

Finally, at PR19 we also made some changes to our framework for performance commitments and outcome delivery incentives. These included the introduction of 15 common performance commitments, to provide greater comparability across companies' outcomes packages. We also asked companies to set service levels with reference to a wider range of factors, including by using comparative information. Incentive rates remained anchored in customers' preferences, encouraging companies

to go further where this was in customers' interests and compensating customers appropriately where companies fell short.

There are similarities between the approach used in water for PR14 and PR19 and the approach which Ofgem has used to reflect customer views in its RIIO-2 price controls. Ofgem's approach is set out below: we will carefully consider what lessons can be learned from this experience when setting our policy for future price reviews.

Ofgem's approach for RIIO-2: enhanced engagement⁴

Ofgem is the electricity and gas regulator for Great Britain, setting prices and service levels for the gas and energy transmission and distribution networks through its RIIO price reviews. For their RIIO-2 controls, Ofgem has employed an approach to customer engagement referred to as 'enhanced engagement'.

There have been two key components to this:

- **Independent, company specific groups.** Similar to the approach we have adopted in water, the enhanced engagement model also makes use of company specific groups. Ofgem has put in place a number of requirements to ensure the independence these groups, including reviewing the shortlist of proposed group chairs prior to their appointment. There are two types of company specific groups:
 - In distribution, each company has had to establish a customer engagement group (or 'CEG'). The role of these groups has been to provide challenge on whether the company's business plan addresses the needs and preferences of its consumers;
 - In transmission, each company has been required to set up a user group. The role of these groups has been to challenge their company's business plan proposals, as well as provide input into the plan.
- **An independent RIIO-2 challenge group.** Set up by Ofgem, this group was established to challenge both the companies and Ofgem and to provide an independent review of all companies' business plans. All companies have

⁴ More details on Ofgem's approach can be found in: Ofgem, '[RIIO-2 Enhanced Stakeholder Engagement Guidance – Version 2](#)', November 2019.

been required to submit drafts of their plans to the group before submitting their plans to Ofgem.

Finally, enhanced engagement for RIIO-2 also includes open hearings, which provide an opportunity for Ofgem to hear submissions and evidence from stakeholders on various aspects of the business plans. These have been cancelled for the gas distribution, transmission and electricity system operator companies due to the ongoing pandemic. In lieu of the open hearings, Ofgem has held a series of open meetings online which stakeholders have been able attend. Open hearings for the electricity distribution companies will take place in 2022.

3. The policy context

Our approach to customer engagement in future price reviews will be informed by our strategy, as well as our learnings from PR19 and emerging evidence from across the sector. With this in mind, this section:

- makes clear that customers are central to our strategy, and explains how our strategy suggests a strong focus on customer engagement is important for future price reviews;
- provides an overview of the experience of customer engagement at PR19, identifying some key successes as well as some of the more significant challenges; and,
- highlights a study published by CCW earlier this year examining companies' approaches to customer engagement at PR19, which may have implications for our approach to customer engagement in future.

3.1 Our strategy's focus on customers

As noted earlier, customers are at the heart of our strategy. We want to see companies transform their ability to serve their customers, and this is reliant on them deepening their understanding of and relationships with the communities they serve.

This focus on customers is reflected in each of our three strategic goals. We want to see a transformation in water companies' performance, so that customers and communities have more confidence that companies are responding to their needs. We also want companies to do more to meet the long term challenges ahead, to ensure that action is taken to deliver for future generations as well as current ones. Finally we want companies to provide greater public value, since people increasingly expect companies in all sectors to behave ethically and to consider their broader impacts.

In our view, it is therefore essential for customer engagement to remain a key area of focus in future price reviews. Our third strategic goal – regarding the delivery of public value – is particularly noteworthy in this regard, because companies cannot simply decide by themselves what constitutes 'public value'. Rather, they must develop a deep understanding of what their customers consider their company's wider public purpose should be, in order that they can reflect this in their day-to-day decisions and longer term planning. We discuss this in greater detail in section 4.

3.2 Our experience with engagement at PR19

At PR19, we witnessed the largest customer engagement exercise in the history of the industry. This saw companies engaging with around 1.5 million customers across England and Wales on their plans for future services. To put that in perspective, two companies individually engaged with more customers for PR19 than the entire sector did for PR14.

There have been some significant achievements as a result. Most importantly, the approach in recent price reviews has brought about culture change within the sector: feedback received through our lessons learnt exercise suggests that many companies now view issues through more of a ‘customer lens’ than they did before.

Nevertheless, we also observed a number of issues with customer engagement at PR19. Our aim is to ensure that we learn from these experiences, while also preserving the gains of the past.

The following subsections look at these issues in more detail.⁵ We first consider the collection and use of customer evidence. We then look at challenges with our process, as well as specific issues we observed with CCGs. These issues are informed by our lessons learnt exercise and CCW’s lessons learnt as well.⁶ We also consider views expressed on the approach to customer engagement in the ongoing CMA appeals.⁷ This includes the views of the CMA, water companies and CCGs, but also views of wider consumer bodies such as Sustainability First.

3.2.1 Issues with the collection and use of customer evidence

At PR19, we saw companies using a wider range of engagement techniques. We also saw companies bringing together data from alternative sources. However, while we did see examples of good engagement and new techniques being used, overall we were disappointed with the extent of innovation in companies’ approaches (as expressed in our initial assessment of plans).⁸

⁵ Further information is also provided in our recently published [PR19 lessons learnt](#).

⁶ CCW, [Lessons Learned from the 2019 Price Review](#), October 2020

⁷ Following publication of our final determinations, four companies requested that our decisions be referred to the Competition and Markets Authority: Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water.

⁸ Ofwat, [‘PR19 initial assessment of plans: Summary of test area assessment’](#), January 2019, page 28

We also saw mixed performance when it came to triangulation of customer data from different sources. Some companies adopted a consistent approach to bringing together disparate sources of evidence, providing a clear line of sight between what their customers said and the proposals in their plans. But this was not always the case. For example, some companies did no triangulation, instead using a single source of research when setting parameters in their plans. Others failed to set out a consistent approach to their triangulation, with the process appearing somewhat arbitrary. And in other instances, we were simply unable to reconcile the outputs of a company's triangulation with the values used in their plans.

Another challenge we faced in this area at PR19 were the large differences we observed in estimates of customers' willingness to pay for similar types of service improvements. Neither we nor the companies were able to explain these differences by pointing to plausible underlying drivers, and we were concerned that they mainly reflected the companies' divergent methods.

During the CMA process, some companies and CCGs argued that we did not account for the views of customers when arriving at our determinations. We consider that evidence of customer views played a significant role in shaping our final determinations. Our interventions were made to deal with the issues above, using the full set of information available to us, and so better aligned with customers' interests. For example, we intervened where data was not properly triangulated or was based on poor research, or where we could not explain why results for one company differed so much from the rest of the country. In other cases, we intervened because we assessed that proposals were inefficient – meaning customers could pay less than outlined in companies' proposals, which was clearly in their interest.

The CMA's provisional findings considered that it is appropriate for us as a regulator to take into account a range of evidence when setting price control parameters, including evidence from comparator companies and other information. More generally, it considered that customer evidence was important, both in a price control, and for wider purposes. However, having examined examples of customer research, it raised questions over the validity of research methods and the extent to which customers can reasonably be expected to comment meaningfully on complex technical matters or evaluate between different alternative plans. It also saw great potential for the development of customer research methodologies and their appropriate application.⁹

⁹ CMA, '[Anglian Water Services Limited, Bristol Water plc, Northumbrian Water Limited and Yorkshire Water Services Limited price determinations – Provisional findings](#)', September 2020, p. 86-87

3.2.2 Challenges with our process

We acknowledge that some aspects of our process presented challenges at PR19. For example, we know that many CCGs struggled with our requirement to submit their assurance reports at the same time as the companies submitted their plans, since this sometimes left them commenting on out of date or incomplete drafts where companies were late in finalising their plan. A number of groups also said they would have appreciated more contact time with us throughout the process, although it would have been challenging for us to provide much more contact time given there were 17 different groups in operation.

Some of the CCGs, as well as other parties, have complained about a lack of transparency in our process, including in regard to how we used evidence from customer engagement and assurance reports to inform our determinations. We consider that wherever we intervened, we took reasonable steps to ensure that our interventions and the justifications for them were made clear in our published documents. Nevertheless, it is clear that, perhaps due to the complexity and the volume of information published, some stakeholders found it hard to understand how we took into account each piece of customer evidence submitted.

There were also aspects of our process which made it harder for CCGs to benchmark their company. While having one CCG per company meant groups had more time to understand the details of their respective company's proposals, a drawback of this approach was that groups were unable to benefit from access to comparative information about different companies' plans, as most companies did not allow their CCGs to share information about their proposals with others.

This benchmarking challenge was amplified by the fact that when business plans were being prepared, there were only two or three years of data available on company performance across the sector.¹⁰ CCGs were also unable to benefit from access to comparative information on companies' estimates of customers willingness to pay for service improvements, since this evidence only emerged once business plans were submitted.

Another challenge with having one company per CCG was that in effect, this left groups competing for scarce technical expertise. While the CCGs generally had the required depth of expertise to execute their price review remit, we also observed a significant degree of variation in research skills across the groups. This may help explain some of

¹⁰ From the 2015-20 period.

the issues we observed with company engagement at PR19, including the issues with triangulation outlined above.

Finally, a key issue at PR19 was that despite our efforts to strengthen the CCGs' governance and transparency arrangements, in practice having one CCG per company meant there were limits to the extent to which these groups could ever be at arm's length from their companies. This risk to independence has been highlighted by a number of bodies¹¹ including CCW,¹² which notes that the CCGs' relationships with the companies can mean that the latter 'set the agenda', running the risk that groups focus on less material issues for customers and give insufficient attention to more significant matters. We consider that this probably helps explain some of the issues we experienced with CCGs at PR19, which we outline next.

3.2.3 Issues with the CCGs

The CCG assurance reports at PR19 included numerous examples of positive challenges made to companies, including for instance pushing companies to stretch themselves further in areas where customer evidence justified this. In addition, the mere presence of CCGs may have encouraged companies to focus more on their customers.

It is also important to remember that by the time they submitted their assurance reports, the CCGs had already been challenging their companies on their engagement and plans for several years. It is possible that many substantive differences which surfaced early on between the CCGs and their companies might have been reconciled over this timeframe. Therefore, even where CCGs included detailed challenge logs in their assurance reports, it is possible that other important challenges were made early on in the process which we did not see.

Nevertheless, we also experienced a number of issues with CCGs at PR19. To begin with, in their assurance reports some groups commented on issues which clearly lay outside the scope of their price review remits. This included commentary on issues relating to cost efficiency and government policy. While this may have arisen due to confusion surrounding our expectations for the price review, it also raised concerns about the independence of the CCGs from their respective companies.

¹¹ For example, see: Sustainability First, '[Water companies' use of customer engagement in their PR19 redetermination statements to the CMA](#)', July 2020, p. 37

¹² CCW, '[Lessons Learned from the 2019 Price Review](#)', October 2020, p. 27

More importantly, some CCGs have also expressed views which would appear to support their companies' interests at the expense of their customers. For example, we have seen instances of CCGs suggesting their companies should be allowed to increase bills to the levels that customers are willing to pay, even if this is above the level required to cover costs. While evaluating the independence of CCGs is an inevitably challenging task, we consider this demonstrates that some CCGs were less independent of the companies as wider customer groups (such as CCW and Citizens Advice) are.

Finally, at PR19 some groups simply failed to provide the evidence required to demonstrate that they were acting independently from their companies. For example, in one instance no information was provided in relation to the remuneration arrangements for the CCG chair and its other members. While insufficient evidence of independence does not, on its own, mean that these groups were not acting independently of their company, this reduced the weight that could be placed on the evidence provided in their assurance reports.

3.3 CCW's customer research report

Earlier this year, CCW published a study they had commissioned from market research firm Blue Marble, examining companies' approaches to customer engagement at PR19: '[Engaging water customers for better consumer and business outcomes](#)'. The study explored which topics water customers would prefer to be engaged on, as well as how this research can be done in a way that is meaningful.

The study acknowledged that at PR19, companies significantly increased the amount of research and engagement they carried out, both to establish customers' priorities for investment and to measure how acceptable they found their companies' plans. However, it also found that many of the research materials used by companies to inform their PR19 plans were not considered meaningful by most customers. In addition, the study indicated that most customers deem the following areas to be least appropriate for consumer research:

- business plan inputs where the relevance of the subject matter is: tenuous to consumers; so technical to require expertise to understand; relates to very long-term planning and future scenarios; or where the bill increases are seen as negligible;
- regulatory metrics, such as setting performance targets and outperformance or underperformance thresholds; and

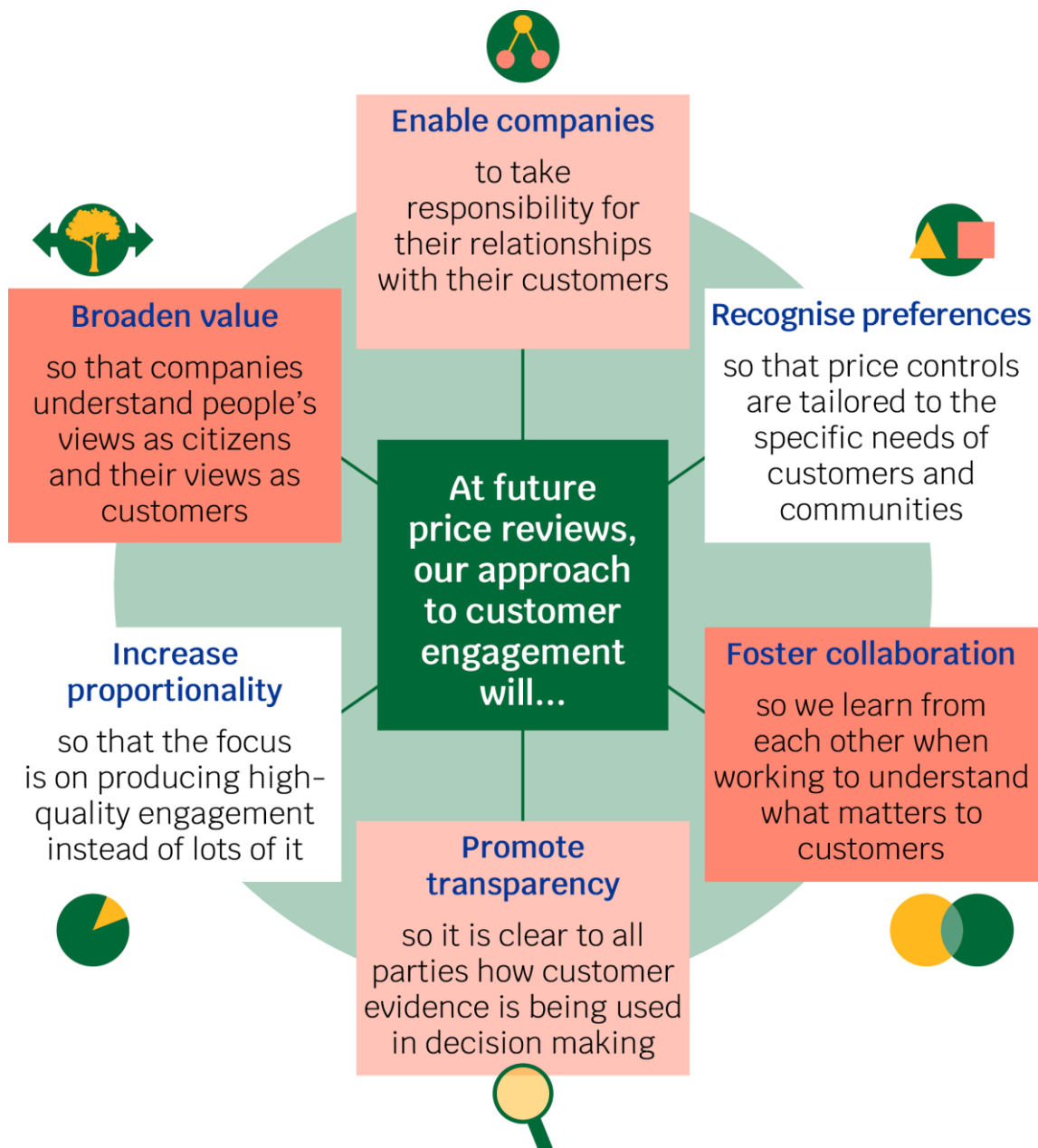
- complex surveys such as willingness-to-pay, where respondents are required to assimilate large amounts of information.

We discuss the implications of the findings of this study for future price reviews in the following sections.

4. Our goals for customer engagement in future price reviews

We now propose a set of goals for how customer evidence might be used to inform future price reviews. This is shown in Figure 1: each goal is discussed in more detail below.

Figure 1: our goals for customer engagement in future price reviews



4.1 Enable companies

As outlined in section 2, our approach to customer engagement at PR14 and PR19 was based on the idea that companies were ultimately responsible for managing their relationships with their customers and responding to their needs. We expect this idea will continue to underpin our approach at future price reviews.

Moreover, to really transform their performance in the coming years, companies will need to deepen their understanding of their customers and communities. Companies have a significant impact on local communities through issues such as mains bursts, and pollution incidents, which makes it important for them to have a clear and up to date understanding of their customers' needs and expectations at all times.

We therefore expect companies to improve their on-going engagement with their customers. This will ensure that services meet local needs, that maintenance work minimises disruption to communities and that vulnerable customers receive the vital assistance they need. Through their engagement, companies can also help nurture the culture change needed in communities to ensure the sector can meet its broader environmental objectives, including more efficient water usage.

4.2 Recognise preferences

Since water companies provide an essential service, there are some fundamental areas where it is vital for the entire industry to be consistently hitting the mark. No customer should receive a sub-standard service just because they happen to live in a specific area. More generally, in some respects customers' needs and expectations from water services may be similar across the country. For example, the impact of an interruption to the water supply may be similar regardless of where in the country a customer lives.

In other respects however, there can be differences across regions. For example, differences in the historic level of services may influence how much specific customers value improvements. Differences in local geography may also mean that some issues will only be relevant to a subset of customers in a specific area, for instance when it comes to the bathing water quality of a specific beach or lake. Further, differences in customers' needs and circumstances may make them much more vulnerable to service disruption than other customers. These differences may also occur within a single water company boundary, which is one reason why companies are increasingly using customer segmentation techniques to better understand local needs and expectations.

In addition, the UK and Welsh governments have different approaches and priorities for water services in England and Wales, respectively. This may impact on customer engagement in each country, since national priorities may result in different areas of focus for the sector. Geographical, economic and social differences between the two countries may also impact on the nature of engagement in each nation.

For these reasons we consider that at future price reviews, it will be important to ensure that key differences between customers and communities can be identified and reflected throughout the process.

4.3 Foster collaboration

We consider that collaboration should be at the heart of the approach to engagement in future price reviews. This is in line with our strategy, which commits us to encouraging greater collaboration across the sector and working with others to increase our impact.

All water companies and CCW undertook customer engagement as part of PR19. As mentioned earlier, we are now establishing a new customer research and insight function to inform our policy making. Much of this research will also be of interest to other stakeholders including Defra, the Welsh Government, the Environment Agency, Natural Resources Wales and the Drinking Water Inspectorate.

There is clearly value in evaluating findings from disparate pieces of analysis which attempt to address the same question. Triangulating across the different sources of evidence can increase confidence in any inferences made (where results point in the same direction), or alternatively help to highlight uncertainties (where results diverge significantly).

Nonetheless, adopting a more collaborative approach to customer research in future could generate several benefits. Firstly, greater co-ordination of research across the sector may generate more consistent and comparable results. It also has the potential to generate better value for money for customers, especially if doing so can result in some work being de-scoped or eliminated. Greater collaboration might also foster knowledge transfer across the sector, including with and between regulators.

4.4 Promote transparency

We consider transparency should play a key role in engagement at future price reviews.

As a regulator, our role is to understand the engagement which has been undertaken across the sector – including through ongoing operations – and how evidence from this has been used by companies to inform relevant aspects their plans. We also need assurance that this research best represents customer views.

Conversely, companies need to understand how we have considered their engagement findings, how this has been evaluated against other sources of evidence and what this means for their final determination. This can be challenging given the volume of customer engagement undertaken, as well as the detailed nature of our decisions in our outcomes regime.

Improving transparency could therefore bring about a number of benefits. For example, greater clarity regarding which customer evidence companies are relying on and how they have used this to inform their plans should result in fewer issues needing to be clarified later in the process. In addition, greater transparency regarding how we have used information from different sources to inform our interventions could enhance confidence in the price review process.

4.5 Increase proportionality

Although a large amount of research was conducted in the run up to PR19 and a lot of money was spent on this, the study published by CCW suggests that much of it was not meaningful to customers. This suggests that some of the data which was used to inform plans may be less reliable than previously considered.

This study raises questions about the appropriateness of some of the research techniques that are currently in use in the sector. Perhaps most importantly, it challenges the idea that conventional research techniques can be reliably applied to all aspects of water services. For example, the study highlights that most market research which uses probabilities tends to run into difficulties, which may have implications for the extent to which stated preference methods can be relied upon when trying to understand customers' views on resilience issues. Interestingly, the study also found that customers do not want to be consulted on all topics relating to water services and that on some issues, they would rather have 'experts' be consulted on their behalf.

For these reasons, we consider that proportionality should be an important part of our approach in future. This would help ensure the sector focuses more on the quality of engagement and less on its quantity, and that customer research provides value for money overall.

4.6 Broaden value

As noted earlier, our strategy emphasises the importance of water companies creating public value. The actions companies take to deliver public value may not necessarily relate to the services directly received by customers, for instance if a company locates training facilities in a deprived community to stimulate local economic development. In these circumstances, companies may need to understand peoples' views as citizens as well as their views as customers.

Nevertheless, it is still important that companies have a good understanding of their customers' preferences on these matters. Therefore for future price reviews, the scope of customer engagement may need to be broadened to reflect the fact that companies will develop plans which deliver public value, both for their customers and for society as a whole.

We invite your views on the following questions:

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

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

5. Some initial ideas for discussion

This section outlines some initial ideas for discussion that could help us deliver the goals outlined above.

Several other organisations have shared ideas regarding how customer engagement might be used in future price reviews which we have considered in drawing up our suggestions. These include CCW in its lessons learnt, as well as water companies, CCGs, Citizens' Advice, Blueprint for Water and other stakeholders in their submissions to the CMA.¹³ Sustainability First has also outlined ideas as part of its ['Fair for the Future'](#) project.

Idea 1: collaborative nationwide research to inform common areas of business plans

The idea

At PR19, companies' highly divergent estimates of customers' willingness to pay for similar services posed a real challenge in terms of understanding whether these reflected genuine differences in preferences and, if not, which values better reflected customers' views. In our view, the best way of addressing this in future would be to make use of a collaborative, nationwide approach to research.

The research would focus on aspects of business plans which are common across companies. At a minimum, we consider this would cover common performance commitments and their outcome delivery incentive rates, although it could also cover aspects of plans which are tested at a 'package' level such as bill profile testing and acceptability testing.

Research may need to be tailored to specific needs in England and Wales, based on the priorities outlined in the SPSs of the Welsh and UK governments and wider differences in legislative frameworks. Furthermore, geographical as well as social and economic differences would also need to be taken into account.

¹³ Stakeholder submissions made to the CMA as part of the PR19 appeals process can be found on the [CMA's website](#).

The research could allow us to better understand differences across company areas and nations, because we would know that any differences in results were not being driven by methodological differences. Nationwide research would also likely represent good value for money for customers, since it should minimise any duplicative costs which might otherwise arise under a completely decentralised model. Given that companies spent over £17 million on customer engagement at PR14 and more at PR19, we think the scope for efficiency savings is likely to be significant, in particular for smaller companies.

This approach is more likely to succeed if it is undertaken in a collaborative fashion. At a minimum, we would expect ourselves, CCW and the companies – potentially represented through a body like Water UK – to be involved. These organisations could form steering groups to help manage the research, with different groups for England and Wales. We could also consider the possibility of involving a wider range of stakeholders in this work, including for instance consumer bodies outside of the water sector and environmental NGOs.

Working together could also help improve transparency throughout the process. Furthermore, since all of the bodies involved would have their own customer insights – obtained from a combination of sources, including research, operational data (in the case of the companies) and complaints data (in the case of CCW) – bringing together this information could help to structure and target the collaborative research. It may also be useful to involve other organisations with insights about customer issues.

We note that in their PR19 lessons learned, CCW also recommends making use of centrally conducted research at the next price review. The reasons cited in support of this idea are similar to those outlined above, including greater comparability of findings, evening out differences in resources available for research between large and small companies and providing better value for money for customers.¹⁴ Several bodies have also expressed support for this idea in their responses to the CMA process, including Yorkshire Water¹⁵ and Blueprint for Water,¹⁶ however we note that Bristol Water has said it supports individual research.¹⁷

Finally, if we did proceed with the idea of introducing nationwide research, we would still expect companies to continue engaging with their customers and drawing insights from their day-to-day interactions at a local level to understand their specific needs,

¹⁴ CCW, [Lessons Learned from the 2019 Price Review](#), October 2020, p.16

¹⁵ Yorkshire Water, '[Response to the CMA's provisional findings of 29 September 2020](#)', October 2020, p. 54

¹⁶ Wildlife and Countryside Link, '[submission to CMA appeals](#)', 2020, p.3

¹⁷ Bristol Water, '[Response to CMA Provisional Findings \(Non-confidential\)](#)' October 2020, p.51

building on the positive culture change brought about during recent price reviews. They should be naturally incentivised to do this anyway through our C-Mex (and D-Mex) measures and, as part of our broader consultation on PR24, we will also consider whether additional incentives may be appropriate to encourage such behaviour.

Considerations

There are several questions about how this approach might work in practice.

Companies will be doing their own engagement, including analysis of their own data, on an ongoing basis to understand and respond to their customers' preferences as circumstances evolve. They will also conduct engagement on company specific issues to inform their business plans, since these would probably not be covered in the nationwide research.

While there should be no need for companies to undertake detailed research on the common issues covered by the national research, some aspects of this local work might overlap with the national research. For example, a company might engage on a bespoke scheme and – in doing so – gain an understanding of its customers' views on supply interruptions, which may overlap with components of the nationwide research aimed at informing common performance commitments.

These different sources of information may complement each other. In some cases however, differences in findings might materialise. This could also occur with the findings from our own research, CCW's research and the nationwide research. Under these circumstances, we would need to consider how to prioritise and weight the different sources of evidence.

Another question is the frequency and timing of this research. One approach might be to do an initial round of research which seeks to understand customers' general priorities to inform our methodology (such as the design of common performance commitments), with a subsequent round used to inform more specific aspects of business plans. However, there may be value in undertaking additional rounds of research, including to measure whether customers' views have shifted over time and to test acceptability and views on draft determinations to inform final determinations.

Finally, there is also a question of how this research would be funded. Given the scope for company savings (by moving from a completely decentralised model to one which makes use of nationwide research), we think one way of doing this would be for all companies to contribute to this work on a proportional basis. We would also expect to

contribute funding to this work, reflecting the importance of the work for the development of the price review and the key role we would expect to play in leading and coordinating it.

We invite your views on the following questions:

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?

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?
- Which organisations do you think should be involved in steering this research?
- When should this research be undertaken?
- How should this research account for differences between England and Wales?

Idea 2: consider whether there is less need for prescriptive guidance at future price reviews

The idea

Our approach to customer engagement at recent price reviews was underpinned by the idea that companies should 'own' their engagement with their customers and that in turn, this would ensure companies' decision-making remained oriented towards their customers. To achieve this, we asked companies to engage directly with their customers (while outlining principles of good customer engagement to help guide their work), and required that they use independent CCGs to give us assurance of this engagement.

As noted in section 3.2, this approach has had mixed success. On the one hand, we have seen a positive culture change across the industry. On the other hand, some issues remain regarding lack of best practice in the collection, use and assurance of customer evidence. Furthermore, some companies are looking to us for further

guidance on a variety of issues, for instance on how to triangulate across different sources of evidence.

Looking to the future, we see two approaches are possible. The first would be to continue providing prescriptive guidance on how companies manage their engagement during price reviews, and potentially expanding this further with more details to address some of the issues we experienced with assurance at PR19. Alternatively we could take a step back, giving companies more responsibility regarding the design and implementation of their customer engagement programmes.

Considerations

At PR14 and PR19 we used a decentralised approach to customer engagement, in which each company engaged with its customers and used insights from this engagement to inform its plan. This decentralised engagement model was one of the key reasons for issuing guidance on engagement and using company level CCGs.

However, if we proceeded with the idea of nationwide research, there may be a reduced need for such guidance or for company level CCGs to provide assurance in future price reviews. This is because by developing this research collaboratively, we should have greater influence and oversight over a large proportion of the engagement which companies use to inform their plans.

There may still be a need for guidance on how companies undertake their local engagement. This could avoid companies putting effort into research which we are later unable to rely upon due to quality or reliability concerns. However, given that the extent of this research will be reduced (as companies will not need to duplicate all matters covered by the nationwide research), this may be disproportionate. Furthermore, providing prescriptive guidance in this space could risk inhibiting innovation in research methods which might otherwise materialise.

Given the reduced need for CCGs, we could also remove the requirement for companies to use CCGs to provide assurance of their local engagement, enabling companies to determine how best to structure this engagement and use insights from it to inform their plans.

If we do decide to retain the requirement to use CCGs for assurance in future, there is a clear case for making changes to address some of the challenges we experienced at PR19. This could include a range of measures, for example: giving CCGs more time to prepare their reports after companies submit their plans; providing CCG chairs and

members with extra guidance and training to ensure groups are clear on our requirements for the price review; and greater Ofwat involvement in CCG recruitment to improve oversight and transparency.

One option we could consider for the future would be regional CCGs, with each group covering several companies at the same time. This could generate a number of benefits: for example, by overseeing several water companies, these groups may be better able to make use of scarce expertise, better able to benchmark companies and be less strongly affiliated with any one company. On the other hand, this may increase the workload and decrease the local connection and expertise of the groups.

Alternatively, given the idea of using collaborative nationwide research in future price reviews, we could consider whether some form of national stakeholder or assurance bodies (or ‘national CCGs’)¹⁸ might be appropriate.¹⁹ However, if we make use of nationwide research in future, there may be limited value in having national CCGs challenge how this research is undertaken or how companies are reflecting findings from it in their plans. This is because we would expect to be significantly involved in developing the nationwide research, which should help us more accurately assess how companies respond to customer views in the areas covered by it.

There may also be difficulties in requiring national CCGs to scrutinise companies’ local engagement and how findings from it are reflected in plans. This is because it could be challenging for such bodies to review all of this work within the timescales available. National groups would also face the challenge of being more distant from customers and companies, compared to local or regional groups.

An alternative role for national groups may be to facilitate the inclusion of wider perspectives and views of stakeholders in the development of national customer research programmes, rather than act as challenge groups on customer engagement. This may help to improve the effectiveness of the research and promote inclusion of a broader range of interests.

¹⁸ With one for Wales and one for England.

¹⁹ As noted earlier, to support their RIIO-2 controls Ofgem has made use of an independent challenge group. This group was tasked with reviewing the plans proposed from each of the companies.

We invite your views on the following questions:

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?

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

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?

Idea 3: better capturing and reflecting customers' views in price reviews

The idea

Many of the challenges regarding the application of conventional engagement techniques are well known. For example, experts in the sector are well-aware that stated preference willingness to pay studies can run into complications such as anchoring bias and proportion dominance.²⁰ It is also generally well established that customers often struggle to evaluate low probability high impact events, which are important in the context of resilience. Nevertheless, CCW's recent research suggests that some of the challenges with applying these techniques in the water sector may be greater than previously anticipated.

One option for addressing this may be to use more detailed and sophisticated approaches to collecting customer insights on these issues. This could increase costs, but given the value of high quality consumer research, this may be money well spent.

However, notwithstanding the importance of customer views, it may be too difficult to solicit accurate valuations, or willingness to pay, on some topics. If this is the case,

²⁰ An overview of the key issues with stated preference techniques can be found in: HMT and DWP, '[Valuation Techniques for Social Cost-Benefit Analysis](#)', July 2011

perhaps alternative approaches, which are less reliant on having a precise understanding of customers' preferences, might be used. This could be more in line with the view expressed by customers that experts should take decisions on their behalf in some areas, and might also deliver an added benefit of reducing complexity in the price review process.²¹

In order to inform these judgements, we need to better understand the extent to which market research can provide reliable estimates of customers' preferences for the purpose of informing price controls, and what alternatives exist. This should then inform changes to the approach to customer engagement. The approaches taken will also have to be appropriate for assessing questions about public value, which may be different from the topics which water companies have previously engaged their customers on.

Considerations

The world of customer engagement is not static. Developments in this field are being made continuously, including through refinements to existing techniques and the emergence of new approaches. Across all sectors, organisations are transforming their understanding of their customers through the use of social media and big data. Similarly, the water sector should challenge itself as to how best to understand customers' preferences and priorities, including for the purposes of reflecting these in our price controls.

We plan to undertake further work in this area with CCW and other stakeholders. The aim of this work will be to understand the extent to which conventional research techniques – particularly stated preference willingness to pay methods – can be reliably used in the water sector, whether there are some topics where conventional methods are more likely to fail and whether, in these areas, alternative techniques might prove more informative.

Alternative techniques could include, for example, use of digital techniques such as big data and social media. Another option may be for companies to make greater use of revealed preferences from how customers respond to service and public value considerations in competitive markets, such as ethical purchasing or low/zero carbon versions of products. Alternatively, we could consider making use of approaches

²¹ The increasing complexity of the price review process was highlighted by numerous stakeholders during our [PR19 Lessons Learnt](#).

currently in use outside of the sector, such as citizens' assemblies. This approach is described in the box below.

Citizens' assemblies

A citizens' assembly is a group of people who are brought together to discuss an issue and reach conclusions about what they think should happen. The people who take part are chosen to reflect the wider population, both in terms of demographics (for instance age, gender, ethnicity and social class) and sometimes relevant attitudes (for example, preferences for a small or large state).

Citizens' assemblies are supported by a team of impartial facilitators who guide participants through the process. Participants usually begin learning about a topic through presentations by experts, covering the breadth of professional opinion on the issue under consideration. This is followed by a phase of deliberation, in which participants explore their own opinions and develop a wider understanding of the opinions of others. Finally, the process concludes with participants coming to conclusions on what they have learnt and issuing recommendations for how the issue should be addressed.²²

Citizens' assemblies have been used to explore public attitudes regarding a range of complex topics. For instance, the citizens' assembly on social care considered the question of how adult social care in England should be funded over the long term.²³ More recently, a citizens' assembly was also used to consider options for delivering net zero carbon in the UK by 2050.²⁴

If we find that detailed information on customer preferences is very difficult to obtain, one option may be to take account of customer preferences at more aggregate levels. For example, we could seek to set outcome delivery incentive rates for performance commitments based on customers' broad preferences, as opposed to their willingness to pay for a specific service improvement.

²² A more comprehensive summary of how citizens' assemblies work can be found at:

www.involve.org.uk/resources/methods/citizens-assembly

²³ Involve, '[Citizens' Assembly on Social Care: recommendations for funding adult social care](#)', June 2018

²⁴ The assembly's final report can be accessed at: www.climateassembly.uk/report/

Finally we note that negotiated settlements, whereby a body representing customers' interests negotiates directly with the company on the regulatory determination, is often cited as an alternative method of reflecting customers' views in price controls. This approach is being used in several jurisdictions, including notably in Scotland where WICS has used the model to set water charges for 2021 – 2027.²⁵

Introducing negotiated settlements in England and Wales would represent a significant change to the price review process, with broader implications than changes aimed solely at amending how customers' views are reflected in price reviews. We have therefore excluded any detailed consideration of this approach in this paper, however we will outline our views in our consultation on the design of PR24 next year.

We invite your views on the following questions:

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?

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?

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

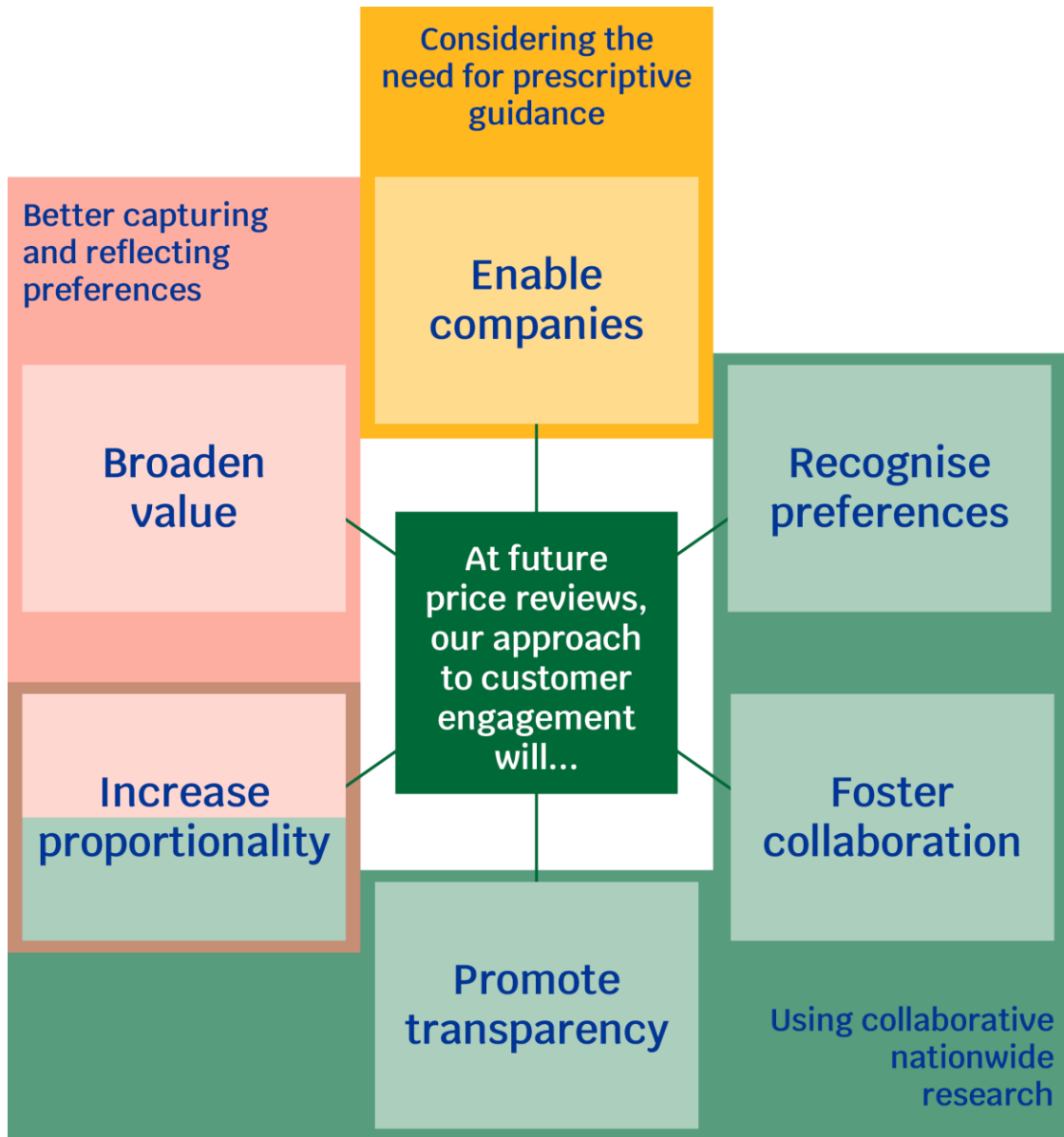
In summary: how these ideas could help us achieve our goals

Figure 2 below shows how these ideas aim to deliver on the goals outlined earlier. The three ideas are described in the dark shaded areas, with this shading overlapping with the relevant goals which each idea seeks to deliver.²⁶

²⁵ WICS, '[Methodology for the Strategic Review of Charges 2021-2027](#)', April 2017

²⁶ Note that 'increase proportionality' overlaps with ideas one and three, since both should help to deliver this goal.

Figure 2: how these ideas could help deliver our proposed goals



Finally, we invite your views on the following question:

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?

Appendix 1: questions for stakeholders

This appendix summarises the questions outlined in sections 4 and 5 of this paper.

We invite your views on the following questions:

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

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

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?

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?
- Which organisations do you think should be involved in steering this research?
- When should this research be undertaken?
- How should this research account for differences between England and Wales?

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?

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

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?

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?

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?

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

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?

**Ofwat (The Water Services Regulation Authority)
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