

**PR24 and beyond – Reflecting Customer Preferences in Future Price Reviews**  
**SES Water Customer Scrutiny Panel response to questions posed by Ofwat**

This paper provides the feedback from the SES Water CSP to the Ofwat discussion paper on “Reflecting Customer Preferences in Future Price Reviews”. Before commenting on the specific questions the CSP feel it is important to emphasize some general points and concerns related to Ofwat’s approach, in line with the comments made directly to Ofwat at the two CCG Chairs sessions on 13/15<sup>th</sup> January.

We welcomed the opportunity to discuss PR24 plans with Ofwat, but were disappointed that Ofwat issued the discussion paper without any prior involvement of the CCG’s – particularly since the CCG Chairs had provided “lessons learnt” input some 2 years ago, and consistently pressed Ofwat to follow up with debates on Ofwat’s views on lessons learnt and plans for PR24. Our CSP and the CCGs in general were also particularly concerned that the discussion paper had an unwelcome tone of criticism of the CCGs and especially questioned their independence from the companies without any tangible evidence or opportunity for the CCGs to respond. It’s interesting therefore that now some 2 years later Ofwat were asking CCG Chairs, at the 13/15<sup>th</sup> January 2021 sessions, to justify their impact, rather than engaging us earlier in your PR24 thinking, if there was a clear Ofwat position to question the effectiveness of CCGs.

The CSP, in line with the CCGs in general, feel strongly that there remains a very valuable and effective role for CCGs in PR24, while recognising there are opportunities for improved structures within the CCGs and collaboration with regional and national structures.

SES Water have re-confirmed their strong commitment to continue with a CSP going forward, and furthermore they have created a second independent panel (the Environment Scrutiny Panel, which has equal standing to the CSP in holding the company to account) to add more focus on the important environmental challenges and ensure SES Water develop a robust long-term environmental strategy. The CSP (together with the ESP) have reviewed their terms of reference and going forward and have agreed with SES Water that, in addition to monitoring, and challenging, SES’s performance on customer commitments the CSP will also focus on advice and challenge in SES’s evolving plans for an increased social purpose approach and wider community engagement.

Overall therefore the CSP (again in line with the general view of CCGs) believe strongly that Ofwat should maintain a requirement for companies to have independent groups with a remit to improve customer and community engagement, and to challenge and assure that the company delivers on its commitments for customers, the environment and the wider social purpose considerations.

The CSP absolutely recognizes that there is scope for better use of CCG’s in PR24, and in particular that a broader structure, involving CCGs at a regional/national level, would have benefits in driving commonality of approach, comparisons and benchmarking. The CSP (or more likely a sub-group of CCG representatives) would be keen to work with Ofwat to agree how best to achieve such improvements.

We would prefer, therefore, that Ofwat involve CCGs between now and May in ongoing discussions and planning on the customer engagement process and assurance for PR24, most likely in some form of joint forum of interested parties (CCGs, CCW, Water UK, and possibly statutory bodies like Environment Agency, Natural England etc).

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

Yes, the goals are appropriate. The focus on customers and communities is valid and the broader public value considerations; and the need to understand preferences. We definitely agree with the need to foster more collaboration and promote transparency; whilst also having better proportionality than in PR19.

It is important though that Ofwat understand, and don't confuse, the difference between "customer engagement", "customer research" and "market research". Customer Research can be undertaken in some cases on a broader perspective, to drive commonality of approach and comparison of outputs. But customer engagement is a participative and local process that needs to reflect local differences, local priorities and local issues.

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

It would be useful to learn more from other industries on how to identify and apply best practice in customer engagement. Also as in other comments above, Ofwat should seek an appropriate balance of national, regional, local research and engagement with the right mix of qualitative and quantitative analysis. Ofwat should consider how customer engagement can best be incentivised towards behaviour change to recognise that customers and communities need to be engaged in issues such as water use, leakage and drought management.

**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?**

Yes we agree. It is helpful to have consistency across companies so that comparisons are valid, whilst recognising that preferences may quite validly differ across geographies.

As above however, it's important that a standard nationalised approach should not replace the need for a balance of research and engagement approaches.

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

Before answering the questions, it's important once more to emphasise the strong CSP viewpoint that Ofwat need to separate their views on national research compared to national engagement. National/regional research can be useful for commonality, benchmarking and comparison, but that needs to be augmented by broader and local customer engagement.

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

Consolidation of a consistent and comparable view on the current status of customer views and comparisons as a starting point early in the PR24 process. Some initial broad viewpoints on priorities, preferences and willingness to pay across the agreed areas of common interest (e.g. leakage, usage, metering, bursts, vulnerability support etc) although this may need second phase research at a more local level. Common use of focus groups, stakeholder events etc can be useful. Research on customers views on the future expectations for water companies and their priorities, particularly those longer-term priorities that matter to (and will impact) customers most such as climate change adaptation and mitigation; where regional customer engagement through groups such as Water Resources in the South East is already in progress and proving an effective basis for co-ordination and collaboration. Some (but not all) elements of "acceptability testing" might also be appropriate where there are common themes (e.g. on an environment protection levy, or on social purpose). The Ofwat suggestions of use of Steering Groups is sensible, and of course additional local research will be required to understand specific local requirements/priorities.

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

Water companies, CCG's, Ofwat, CCW, Water UK as a minimum. CCGs should be broadened to ensure appropriate representation of their communities and citizens. However, of even more importance is the consideration by Ofwat of ensuring there is collaborative planning, using the mix of organisations, prior to May to ensure a well thought out and appropriate plan that optimises the relevant roles and effectiveness.

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

Consolidation of a common starting point and scope should be done by mid-2021 latest. Main priorities and preference research will need to be done from last quarter 2021 through first quarter 2022 to allow time for review and actions at a local company level in advance of the business planning in second half of 2022 and through 2023. We agree with the Ofwat suggestions of a number of rounds of research (and also a mix of quantitative and qualitative research); and that the research should be funded on some proportionate basis across the companies (and a contribution from Ofwat). But again it needs to be in a framework of an appropriate mix of national/local emphasis and needs to recognise that this is research not engagement.

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

Via appropriate levels of customer sampling, and if needed some specific areas of focus of Wales. There may be scope for combining elements of the research across the two nations, with appropriate levels of customer sampling, but they should be designed, managed and assessed on a national basis. We are aware that there are specific bodies in Wales (e.g. the Welsh Government Price Review Forum) which can participate in collaboration for such national research and ensure the strategic guidance from Welsh Government is accounted for. However, such research should be completed at an early stage in the Price Review cycle to influence and provide evidence that can then be reviewed in the context of each nation's specific strategic priorities.

**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?**

As per previous comments, in this question Ofwat are changing reference to national engagement rather than research. CCGs at a local level played an important role in PR19 in ensuring improved quality of local engagement, and in PR24 such local engagement will be even more important as companies seek to improve their social purpose and community engagement.

It's important for Ofwat to distinguish between engagement Ofwat need to deliver their strategy and the need for assurance on individual company business plans. Ofwat should be very clear on exactly what they expect from customer engagement in PR24, and what they then expect from companies and CCGs from their respective roles in the process. This guidance should be clear and in sufficient detail, while avoiding over prescriptive top down guidance that encourages a one size fits all approach and distracts from local innovation.

Specifically on customer engagement, if Ofwat are involved in the National research then they will have the opportunity to input their expectation as part of the scoping and definition of the research. In the CCGs' view it remains extremely helpful for Ofwat to provide guidance on expectations and scope of assurance particularly if Ofwat is expecting independent assurance from a body such as a CCG. During PR19 the CCGs all agreed that the "aide-memoire" was an invaluable help in giving the CCGs a common expectation of what was required from them in their assurance reports. The "aide-memoire" covered a wider scope than just the initial customer engagement research, so while there would need to be less definition of this in any future "aide-memoire" there is still real value in Ofwat being clear on its overall expectations of what the scope of independent assurance should cover. One

specific area where Ofwat could provide clearer guidance on what would be deemed best practice in 'triangulating' research, as there were confused views across water companies and CCGs during PR19.

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

From a CCG perspective, it should cover the overall expectations of the PR24 process, timelines, and scope/focus of the assurance required. As above, the PR19 "aide-memoire" is a useful benchmark on the scope, which covered much more than just customer research/engagement.

Our view remains that it seems preferable for Ofwat to continue to be appropriately prescriptive in its guidance, as this ensures consistency of approach and expectations of the process. It is both a decision of Ofwat and each company as to the extent to which they feel independent assurance is valuable and required – but again it is preferable to have a consistent approach across all companies. We believe most companies (and Ofwat – albeit with some reservations) felt there was real value in the assurance role of CCGs and how they helped ensure a customer perspective was accounted for in the plans. There is value therefore in continuing a role for CCG assurance, although in a broader structure of representation and collaboration.

Ofwat mention 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 (e.g. in wider social purpose aspects). However most CCGs have always undertaken a broader role than just the "customer engagement assurance" e.g. the SESW CSP ToR's define a dual role (i) related to Ofwat (ii) related to the water company. In addition the assurance role of the CCG involved a greater use of time in the analysis and application of the customer research output (in terms of what impact this was having on the company commitments and plan) as opposed to the lesser time on the research process itself.

In addition the fact that the CCG had a close link to Ofwat, gave greater credibility to the independent role of the CCG, and also ensured the CCG was appropriately informed on the process and key issues. Furthermore the growing importance of the social purpose/community opportunities for companies increases the value of having a local focused assurance approach from such as the CCG.

In conclusion therefore it seems that a tiered structure (local, regional, national) that involves CCGs in some form, could be worthwhile. At a regional level they can be represented by the CCG chairs, with a wider representation of other appropriate bodies (e.g. CCW, WRSE, regional and local community groups such as wildlife trusts, rivers trusts etc – and maybe follow the CCW regional structure). At a National level the research co-ordination could involve a nominated sub-set of CCG chairs, and again other appropriate bodies such as CCW, Water UK, plus some Ofwat nominees. Continuation of the extremely valuable quarterly meeting of Ofwat and the CCG chairs could then continue to ensure CCGs were kept in the loop on the research programme, specification and outputs.

In terms of the assurance/challenge process, and Ofwat's concern to ensure full independence of the CCGs – the use of the tiered approach above should help, but also it would be beneficial to include peer-review processes as part of the assurance, which could also include a broader role for CCW in facilitating and monitoring that as a further assurance process. Ofwat could also be involved in the peer-review to provide their own assurance on independence.

**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?**

See comments above. Specifically the use of the tiered approach plus the inclusion of peer-reviews within the process. An important additional step from PR19 learning could be to ensure that via Ofwat involvement in any tiered structure they ensure the CCGs etc get clearer input of the cost-efficiency conclusions so they can better consider the validity of Willingness-to pay conclusions and proposals.

**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?**

The key concern flagged previously by CCGs in general was that there was too much waste of money with many companies using the same research companies to undertake similar qualitative research that would have been better done as shared research. In addition there could have been better review of best practice, plus learning lessons from other sectors (especially energy). A key issue in PR19 was doing Willingness-to-pay research before Ofwat concluding cost-efficiency analysis so the WTP conclusions were not based on the best view of a baseline bill value. We would again suggest a collaborative forum is used before May to jointly discuss and agree on the optimum balance and scope of research.

**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?**

It is obviously worth investigating best practice in other sectors, and there are clear benefits of making links across the utility sector and beyond. From a structure viewpoint, as mentioned a number of times previously, it is worthwhile creating some form of forum of interested parties to review and discuss improved research and engagement structures.

Ofwat might also consider the value in CCGs playing a broader role than just customer, learning from the experience of the energy sector (see below)

## Overview – Engagement groups in the water & energy sectors

	Water Customer Challenge Groups	Energy CEGs and User Groups	Commentary
Group Role	<ul style="list-style-type: none"> <li>Challenge and scrutiny but interpreted very differently - 'Armchair auditor', 'critical friend', 'co-creation'.</li> <li>Some Groups see role as openly challenging the regulator where in the interests of customers others in supporting regulator in delivering its role.</li> </ul>	<ul style="list-style-type: none"> <li>Challenge and scrutiny – though differences of views on whether CEGs should be a 'consumer challenge group' or 'expert challenge group'</li> <li>Some informal influencing where framework clashes with stakeholder views?</li> </ul>	<ul style="list-style-type: none"> <li>Energy Groups part of a three-pillar process also including RII0-2 Challenge Group and open hearings.</li> <li>Flexibility for Chairs to define how work and relationship with company</li> </ul>
Scope business plan	<ul style="list-style-type: none"> <li>Quality of engagement</li> <li>Degree to which BP reflects stakeholder views</li> <li>Outputs</li> <li>Some provide views beyond this</li> </ul>	<ul style="list-style-type: none"> <li>All aspects except 'financing'</li> <li>Groups focused on different things in part dependent on skills/expertise/company situation and track record</li> </ul>	<ul style="list-style-type: none"> <li>Breadth and depth of challenge on any particular issue varies across Groups</li> <li>No agreed view as to what 'Good Quality' engagement looks like, or how necessary it is</li> </ul>
Scope BAU	<ul style="list-style-type: none"> <li>No requirement to keep CCGs</li> <li>Most have some kind of role to: Hold company to account on BP commitments/embed engagement/ensure day to day decision making reflects stakeholder views/report to Ofwat alongside company annual report</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory 'expectation' Groups continue</li> <li>Evaluating the approach and will decide whether to mandate the CEGs – considering ongoing role to support regulatory work</li> <li>Some groups have updated TOR similar to water</li> </ul>	
Member - ship	<ul style="list-style-type: none"> <li>Varies though includes regulator and CCW reps</li> <li>Mix of 'representative' members from particular <u>organisations</u> and 'expert independent customers'</li> </ul>	<ul style="list-style-type: none"> <li>CEGs – all members are independent not representative</li> <li>User Groups – Members role more representative - 'advocates' on behalf of different energy system user groups</li> </ul>	<ul style="list-style-type: none"> <li>Many CCG members are unpaid or on daily allowances.</li> <li>Some CEG/user group members paid more competitive day rates.</li> <li>Members not always from the region</li> </ul>

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

Anything that becomes more technical will be more difficult to get informed opinions on – e.g. rate of mains replacement; extent of intelligent network. Also asking too broad a range of questions at any time makes it harder to get informed feedback – the less complex the better.

**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?**

As per previous answers, it is best to get as much understanding as possible of best practice across multiple sectors, to generate more ideas for use in water. However we must emphasise again that Ofwat should aim to use participative and collaborative input via using a joint forum of interested parties to discuss the optimum approach for shaping customer engagement. There is a wealth of skills and experience across CCGs, CCW, Water UK etc that Ofwat should use to best shape its thinking and not concentrate on an offline paper based review of feedback such as here.

We trust that the comments and feedback provided above is helpful and thought provoking for Ofwat. The CCGs firmly believe that they played an important role in PR19 providing independent challenge and assurance to ensure a step change in the quality of customer engagement, e.g.

- pushing companies to be more strategic in how they use customer engagement.
- challenging companies to improve the quality of what they are doing
- pressing companies to go further in terms of environmental achievements
- strong engagement with company boards, pressing them on company priorities
- challenging on the cost of engagement
- challenging on lack of knowledge about customer base and lists of stakeholders
- challenging companies on quality of data, on understanding of vulnerability
- pressed for robust use of triangulation
- strong use of co-creation based upon customer priorities
- thread of improvement based upon customer views on current performance

From the SES Water CSP perspective we believe the depth of engagement and questioning, exemplified by our Challenge Log and the evidence in our PR19 Report, enabled a detailed understanding of the local customer expectations and how best these could be accounted for in the companies plan.

We believe that further improvements can undoubtedly be made for PR24, and are keen to engage with Ofwat on how to ensure this happens. We are absolutely confident though that there is a very valid and effective role for CCGs helping to make PR24 a success, and hope that is also the conclusion of Ofwat.