

Our Ref: PK/LAT/Ofwat

29 January 2021

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Dear Ofwat

PR24 and beyond: Reflecting customer preference in future price reviews.

Many thanks for the opportunity to respond to the above discussion paper issued on 8 December 2020. We welcome the early engagement from Ofwat on this topic, not only through this discussion paper but also via the recent sector-wide webinars and workshops.

Overall, we are supportive of the goals proposed by Ofwat for customer engagement in PR24, and in particular the focus on “high quality” as opposed to “high quantity” engagement.

Furthermore, we remain strongly supportive of the use of Customer Challenge Groups – our Customer Scrutiny Panel in PR19 helped us to improve the quality of the research we carried out and provided appropriate challenge for the Board and management.

Finally, we believe it is extremely important that any research carried out at a national or regional level must be conducted in a way that enables each company to identify and act upon any local differences that do exist, and not in any way dilute the relationship between water companies and their customers at a local level.

As always, we have happy to clarify or discuss any matters noted in this response further with you.

Yours faithfully



Paul Kerr
Group Chief Financial Officer

SES Water's response to Ofwat's consultation on PR24 and beyond: Reflecting customer preferences in future price reviews

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

Response: We agree with the goals as set out in the discussion paper.

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

Response: One additional goal should be that any specific customer engagement carried out in the course of the PR24 price review should complement what water companies, regulators and other stakeholders already know about their customers. Such future engagement should therefore:

- build on the PR19 customer research (which was the largest ever engagement programme undertaken by the water industry), the findings of which are likely to remain largely valid.
- build on the insights that water companies, regulators and other stakeholders already have about customers at an overall and segment level through their ongoing research and engagement programmes.

We strongly feel that the customer engagement activity we carry out for price reviews should not stop once the plan has been completed and we described how we would ensure this would not happen in our Business Plan for 2020 to 2025. Our strategy is to continue to use customer insight to improve the services we provide and respond to customers' needs and we are doing this through our 'Voice of the customer' (VOC) programme.

The first phase of our customer engagement programme for PR19 was 'listen and learn' and we feel we are now doing this effectively, every day, through our VOC programme. This should reduce the amount of bespoke research required at PR24 so it supplements our enhanced business-as-usual insight process, rather than bespoke research being the primary driver of the PR24 engagement programme.

In summary, over the course of the last two price reviews, and the intervening periods, companies have developed and implemented ongoing insight programmes to inform their business-as-usual activities and improve service. It is important that this research contributes to the development of price reviews and helps to focus on the areas that customers prioritise – particularly relating to service. Therefore, we suggest an additional goal could be to 'build on the insight gathered from ongoing customer engagement and focus on the areas that matter most to customers'.

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?

Response: We agree that common concerns should be dealt with in a consistent manner but any research carried out at a national or regional level must be conducted in a way that enables us to identify and act upon any local differences that do exist, and not in any way dilute the relationship between water companies and their customers at a local level.

It is also important that companies have full and early visibility of the scope of such research, so that it can inform the development of the rest of our engagement approach and we can be assured that insights will be available at the point in the process where we need them.

Some research being centrally co-ordinated should help to ensure Ofwat's and CCW's confidence in the methodology used and the comparability of results (and therefore reducing the risk of regulatory intervention to disregard or moderate results), focusing the whole sector's effort on understanding and deploying customer insights rather than critiquing approaches. We see definite value in Ofwat and CCW hearing directly from customers, and their policy positions being informed by customer views.

We recognise the importance of consistency. The review of research carried out by companies in the south east on the last round of Water Resource Management Plans showed that although there were many similarities in the outputs of the research, there were also differences and it is possible that was due in part to the framing of the questions and the supplementary information provided. Conducting work at a national level on some common areas would help to address this.

There is scope to drive efficiencies but the design, planning and management of the overall programme will be key, to ensure effective ways of working and value for money is achieved as collaborating across multiple parties' risks adding cost and complexity.

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

- 1. Which aspects of business plans do you think should fall within the scope of this research?**
- 2. Which organisations do you think should be involved in steering this research?**
- 3. When should this research be undertaken?**
- 4. How should this research account for differences between England and Wales?**

Responses:

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

- Societal and environmental challenges where the water industry can make a difference at a sector level.
- Investment in long-term resilience versus short-term cost savings and bill reductions.
- Common performance commitment areas (taking account of companies' varying past and current performance) and in particular affordability, reducing water use and leakage.
- The regulator's financial and reputational incentive mechanism.
- The role that others can play, such as the Government, in helping the industry tackle national issues.
- Water resource planning.
- Attitudes to different types of suppliers e.g. community based companies, nationals and multi-nationals

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

- CCW.
- Water UK, alongside water companies so that each party has full confidence in the approach at the outset which is agreed collaboratively.
- UK Water Industry Research (UKWIR).

- We see a role for independent scrutiny as part of this process but the role of Customer Challenge Groups (CCGs) needs reviewing and clarifying for PR24 (see response to question seven for further detail).
- Water Companies.
- Additional independent expertise from outside the sector could prove valuable, such as through the Market Research Society, the Institute of Customer Service and higher education establishments.
- In terms of delivery, this could be achieved through an independent research partner such as Citizens Advice, overseen by the steering group.
- Could this work be achieved through the Centre of Excellence that is proposed as part of Ofwat's innovation strategy?

3. When should this research be undertaken?

We do not feel able to provide a detailed response to this question as it does depend to some degree on Ofwat's methodology for PR24 and the agreed structure and mechanism for designing and delivering collaborative research. However, customer engagement is one of the early stages of the price review process – for PR19 we began our customer engagement programme in October 2016 to submit our Business Plan in September 2018. A timetable needs to be agreed that provides enough time for companies to deliver any additional research that is required.

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

There are differences in the policy environment in England and Wales which will need to be reflected in the research, however this should not fundamentally change the focus of the research or how it is carried out. We also feel that any and all regional differences should be accounted for in any nationwide research. For example, the difference in water scarcity between different areas of the country.

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?

Response: In line with Ofwat's goal of enabling companies to take responsibility for their relationships with their customers, any guidance given should provide companies with the flexibility to engage at the level and in the way that they find most conducive to obtaining relevant, actionable insights from their customers at an affordable cost. Guidance would however be welcome on how Ofwat will assess the quality of the output, including any best practice expected, and how it is used to inform the companies' business plans.

As the industry's smallest water company with limited resources and budget, we welcome Ofwat's goal of increasing proportionality with a focus on producing high-quality engagement instead of higher quantities of such engagement. At PR19 there was a considerable focus on estimating the total number of customers engaged with, rather than examining the quality of that engagement and what contribution it made to the overall business plan.

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

Response: Further guidance would be beneficial to cover:

- The way in which funding contributions are split between companies should be reflective of the number of customers served and research quotas should also reflect this

- It is also important to recognise that one piece of research rarely provides the full picture and the use of different methods to provide depth and breadth of research is important
- Companies should still have the flexibility to explore areas themselves and draw alternative conclusions if that is what the research triangulation process exposes
- Guidance on what is done at a collaborative level and what should be done by companies. A 'must, should, could' approach may be helpful and would then still allow for some innovation

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?

Response: There needs to be a way of assuring the quality of the research carried out and trying to ensure consistent standards across the industry.

As mentioned earlier in this response, as part of the assurance process the future role of CCGs needs defining. For PR19, our Customer Scrutiny Panel (CSP) helped us to improve the quality of the research we carried out and representatives from the panel attended Board meetings and had contact with the Independent Non-Executive Director who championed customer engagement throughout the price review process. However, we are aware of inconsistencies in the approach taken across companies, the differing level of scrutiny provided by different CCGs and the significant variation in the skills and experience of their members.

The aide memoire provided at PR19 covered an extensive range of activity which many CCGs struggled to deliver with the time, resources, and expertise available. If more customer research is to be carried out at a national level, there is the potential to streamline the assurance process to reflect this with the establishment of a central assurance function. A 'hub and spoke' type arrangement could be put in place where the central group is the hub (providing the reporting function) and smaller, more focused groups could be established for each of the companies, with a more consistent set of skills and expertise so Ofwat will be assured that companies are following a robust and high-quality research programme. Ofgem specified the areas that needed to be represented by members of the Customer Engagement Group established at RIIO2 to help provide the quality of assurance required. The regional group that has been formed for Water Resources South East has worked well which includes representatives from each of the company CCGs.

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?

Response: Please see our earlier points in this document about the use of ongoing customer engagement programmes to help inform price reviews.

Companies used a broad range of research techniques and there should continue to be the flexibility for companies to innovate in this area. No one piece of research will provide all the answers so it is important that companies use a range of methods to provide a full picture of what customers want and expect. The formation of a national group to steer research could also provide a platform for lessons learned on research techniques and the sharing of findings from research and the latest methods available, helping companies to use the most effective techniques in their future 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??

Response: We believe there is always a value in looking outside of the sector at best practice in other industries. This is one of the reasons why we have suggested the inclusion of independent expertise in one of our earlier responses.

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

Response: In autumn 2019 CCW conducted some research with a company called Blue Marble which explored how to carry out research with customers in a meaningful way. This highlighted some areas where customers find it challenging to provide an informed view and some recommendations going forwards to improve this.

Again, using a mix of methods is key as some subjects lend themselves better to more deliberative approaches and some can be done using quantitative customers. As with PR19, engaging with a representative sample of customers in vulnerable circumstances, and support agencies, is very important.

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?

Response: We have proposed a number of ideas in this response paper and do not have anything else to add here.