



South Staffs Water

Green Lane, Walsall WS2 7PD
www.south-staffs-water.co.uk

PR24,
Ofwat,
Centre City Tower,
7 Hill Street,
Birmingham,
B5 4UA

By email to: pr24@ofwat.gov.uk

29 January 2021

Dear Sir,

South Staffs Water response to Reflecting customer preferences in future price reviews discussion paper

Thank you for the opportunity to comment on the above discussion paper. Our responses to the specific questions are set out on the following pages.

Please let me know if you wish to discuss anything further.

Yours faithfully,



Philip Saynor,
Director of Regulation
South Staffordshire Water PLC

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

We agree that the six goals set out on page 6 of the discussion paper are the priority ones to help ensure a continued successful step change in the standard of customer engagement at PR24. All six goals resonate with our review of the main challenges encountered at PR19.

In particular, the “Foster collaboration” goal should also help to ensure proportionality for WOCs and WASCs. Complexity and scale of customer engagement increased significantly at PR19 and there needs to be recognition of size and resource availability – e.g. a high level of fixed costs for undertaking major research studies that could be run nationally to allow better comparability and deliver improved value for money for customers.

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

We do not have any additional high level goals to suggest, but we feel there needs to be a widening of the “foster collaboration” goal as Ofwat and the industry need to be pro-actively looking outside of sector and the UK to drive forward customer engagement and innovation. Whilst this may feature in Ofwat’s thinking, the wording of the goal is “inward sector” looking and as much emphasis needs to be placed on widening collaboration. Many of the long-term strategic challenges the water industry faces can’t be effectively challenged without cross sector working and learning on best practice from the world’s most innovative sectors and companies – e.g. tackling fuel/water poverty and altering behaviour around customer use of how much and when precious resources like energy and water are used.

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?

As a WOC, we broadly support a national approach to areas of common concern to all customers (see more at point 4 below) to ensure consistency of approach, methodology and improved comparability of outputs to help overcome the main challenges identified at PR19.

However, there are areas of concern about the practicalities of how a national survey will work. Reviews of the approach to national engagement in the DNO market shows issues arose, to the extent that a local focus on engagement is now put forward. These issues should be carefully considered and include:

- If companies are still required to undertake local research will there actually be a cost/resource saving in the long-run if they also have to fund large national led research also?
- How much will each company contribute to the national run research and if larger companies contribute more will this give them more influence in shaping the approach taken?
- Who has the final sign off on what research/engagement methodology is used and which questions are asked and how? Who sets the guidance on how local engagement findings are triangulated with national studies?
- For projects around customer valuations for service improvements (WTP) companies are often starting from different base positions in terms of service change and may have different level of ambition on stretched service

performance given their customer priorities' and differing local challenges. How will this be managed?

- How would the CCG challenge work effectively in practice? Would it come from a national group, with a member that represents each water company to ensure balance and fairness in terms of representation?

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?

There is clear and obvious use of national research to determine customers' preferences of the following areas to prevent duplication of effort and resource and ensure comparability:

- Engagement around customers preferences into ODIs and governance and corporate structures where consistency is required to ensure trust and logistic in the water sector is achieved long-term
- Studies among customers groups who deal with multiple water companies, where to deliver customer value national approaches to service delivery (and therefore engagement) are needed – such as NHH retailers and developer engagement
- Engagement related to national challenges to ensure consistency of the approach – such as social tariffs, lead pipe replacement, supply pipe ownership, smart metering
- Bill affordability and acceptability studies where the key questions being asked of customers about their views of companies' plans need to be consistently worded
- Willing to pay studies – providing the challenges can be overcome. For example, would the national study undertaken be just focused on the agreed "Common" Performance Commitment areas for PR24, or would each company also bring into the study a list of attributes to test that are be-spoke to their customer supply areas. If both, then this would still have implications for comparability as customers in different regions are trading off different service valuations. However, industry level WTP analysis reviews highlight that the biggest influencer on WTP value incomparability is the importance of scope sensitivity to customer valuations. If you offer more units of service change in a WTP study you get a lower value per unit, and vice versa. Consequently, if you control for the scope of service change offered and is presented to customers in a clearer way to allow them to better evaluate the level of risk vs their priorities, then the industry has an opportunity to eliminate a significant part of the difference across companies in valuations. If a national study for WTP looks unachievable there is an argument to just set national guidance that companies to adhere to around methodology, question framing and scope of service change for all the key attributes to be tested to ensure a more consistent approach and better comparability of results.
- Which organisations do you think should be involved in steering this research? To ensure successful outcomes the organisations involved in steering the research should come from diverse range of communities and customer representatives from organisations, charities, local authorities (including suitable research academics and big data experts) which cover off all the core strategic challenges the industry faces – e.g. vulnerability/social, environmental, innovation. Water companies and regulators would then work with the steering and a customer challenge group to deliver the national research.

- When should this research be undertaken?
It is problematic to answer this question without knowing the specified end date for submission of the PR24 business plans. To ensure there is no squeeze towards the end of the PR24 process, the national research should ideally start from early 2022 to cover WTP and any areas of strategic importance that are chosen to be covered nationally, including governance/corporate structures and, followed from late 2022 with a study focused on gaining customer support for PC/ODIs, with acceptability/affordability of business plans completing the national programme ahead of the agreed PR24 business plan submission deadline.
- How should this research account for differences between England and Wales?
- Unless specific Government guidance has an impact on the engagement needed, there should be no differences in the approach to any national research between England and Wales to ensure all the benefits are maximised.

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?

If collaborative nationwide engagement is used then the need to provide very detailed guidance at a local level should be reduced to just focus on very high-level principles/expectations, as the nationally led projects could have detailed guidance applied to them to ensure successful outcomes.

Attaching too much prescriptive guidance on local engagement programmes could have the impact of limiting innovation. However, the guidance should cover key expectations around the six core areas listed in the paper and the findings of the other PR24 reviews carried out (e.g. CCW's review of PR19) to ensure engagement consistently adheres to best practice.

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

How any guidance around triangulation is handled is critical, particularly if there are nationally run studies that will ultimately feed insights into water companies' overall customer engagement and PR24 plans. Ideally, there would need to be an overarching "best practice" framework of how insights from different studies are triangulated otherwise the issue of comparability and assessment of business plans will prove problematic if water companies all go down a different route to approaching this complex area. The ICF/CCW triangulation and Frontier economic studies in 2017 started this journey, but any detailed work to have an agreed framework adopted has not been progressed. A review of PR19 business plans suggests that water companies used a qualitative and/or a quantitative approach to triangulation. There is potential for this important area to fall under the remit of the group who would run the national studies to also work on developing this guidance alongside Ofwat to ensure consistency of how this area is approached by companies. We would advocate that both qualitative and quantitative approaches should be included within any guidance.

In addition, taking account of customers' priorities in decision making requires water companies to choose some way of aggregating them. Many water company often chose to take the "majority rules" view, but they could choose to take a different approach, for example giving greater weight to vulnerable customers, or considering future customers rather than just current customers as having standing, when choosing service levels or priority areas. Customers themselves should ideally be engaged on how they would like to see the company balance these objectives. Such engagement would provide legitimacy to its adopted strategy and could form a project

for national level engagement. This area should be considered as part of any guidance offered as these decisions have important implications on the research approaches taken, for example in deciding where to focus sample designs.

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

The proposed approaches to CCGs and assurance outlined in the paper are all worthy of consideration, but we would recommend that the assurance model is design around the chosen customer engagement guidance and overarching approach.

If customers' core priorities across wider regional areas are proven to be similar then this would make the case for a regional CCG stronger, rather than at a local level, to take advantage of the areas outlined in the paper – although the CCG would need to have adequate representation from the supply regions of each company it covers to ensure fairness.

If assurance is kept at a local level, there is potential for companies to form champion groups (as some companies did at PR19, e.g. Portsmouth) which are made up of (informed) “everyday” customer champions and local community representatives who would then challenge the company’s engagement and plans and represent customers’ views. A more streamlined CCG formed of “industry experts” (mirroring the current CCG approach) could be maintained, providing oversight to the champions group work on key policy decisions and how effectively customers are using the engagement to shape their plans. This approach, whilst adding another layer of assurance that may prove a burden to smaller water companies, may encourage a greater co-creation approach and customer focus.

The use of independently moderated Citizens Forums (online) to validate key policy decisions is another route to providing assurance and we support the example set-out in the paper. It is likely these would have to be run online though given on-going COVID-19 impacts.

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?

Overall, we view that successful business plans development should draw on stated preference (SP) methodology as a technique at PR24 (e.g. for measuring WTP for service level change), but needs to be supplemented with additional revealed preference, wellbeing research, further targeted stated preference research, and/or value transfer/ social return on investment (SORI) analysis.

The main issues with stated preference research arise, amongst other reasons, when descriptions are inaccurate, difficult to understand or ambiguous, where there are incentives for participants to misrepresent their preferences, or where participants treat the survey as inconsequential and do not consider their preferences carefully. All of these issues can be avoided with careful design and testing and following best practice guidance consistently.

Reflecting back on PR19 as a whole, one main area around which more detailed guidance could be built upon (which is cited in the paper) is to ensure there is greater use of revealed preference research alongside the traditionally used stated preference methods. This would also help in overcoming the challenge of customers not being able to answer questions on complex topics they don't understand. Research geared around spending more time “live” in customers’ homes and lives to better understand the “why” behind their claimed behaviours with their water services

– such as water efficiency – is important for PR24. The guidance should clearly outline what best practice techniques are suitable and acceptable for informing business plan development.

From SSC customer research programmes the feedback from our customers was that “Willingness to Pay Research” was the most complex and challenging for them to engage with, so it is important to continue to draw on the improvements made between PR14 and PR19 to further reduce cognitive burden and find ways to contextualise the investment options customers are trading off between to determine how much they value service improvements. Robust qualitative testing of materials and survey design must be undertaken ahead of any quantitative study. However, there must be a careful balance between making the survey customer friendly and ensuring the quality of the outputs can be relied upon when taking into business plan investment planning.

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?

We do not have any further suggestions. Only to flag that the water sector continues to have the opportunity to learn from the customer analysis and segmentation techniques used in the retail sector in terms of mining big data and developing customer segmentation frameworks to deliver service improvements and drive positive engagement among customers to meet strategic challenges (without going beyond the lines of what customers think is acceptable in terms of using personal data to personalise the service, ref privacy concerns around Amazon and the big social media platforms). Key areas for this, given COVID-19 challenges, will be water efficiency, uptake of digital services - along with better awareness and accessibility of PSR services and financial support.

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

Asking customers to provide informed feedback on complex and technical regulatory mechanisms or about the details of large capital investment programmes is limiting. Examples include:

- Caps and collars for ODIs
- Granular target setting for ODIs
- The details of what types of performance targets should be set to ensure a major capital schemes finishes on time and to budget.
- Use of financial levers, for example PAYG and run-off rates

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?

If companies are further encouraged to take ownership of developing innovative, locally based customer engagement programmes that drive their organisation to deliver radically different business plans, how will Ofwat’s overall approach to price reviews reconcile being able to accurately compare water companies against key metrics if plans start to diverge significantly? This issue is unlikely to arise if national led engagement studies are run and detailed guidance is given to steer water companies on what makes “best practice” engagement, but should form part of the thought process as the final methodology for PR24 customer engagement is finalised.

On the point of framework guidance, the “Sustainability First” New PIN report published its report in 2019 into “hearing the public interest voice in every and water”.

In agenda point 6 of the report there is an accessible “Decision Making Framework” outlined for public interest engagement, which noted it had built on Ofwat’s work in this area. Is this framework being considered as a framework for how companies should approach customer engagement and the issue of triangulation and to assess how this can build on the ICF/CCW paper. These resources contain a robust check list for water companies, regulators and assurance groups (like CCGs) to adhere too.

<https://www.sustainabilityfirst.org.uk/index.php/new-pin>