

29 January 2021

Ofwat
Centre City Tower
7 Hill Street
Birmingham
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By email:

Dear Sir/Madam

PR24 AND BEYOND: REFLECTING CUSTOMER PREFERENCES IN FUTURE PRICE REVIEWS

We welcome the opportunity to respond to Ofwat's discussion paper on *PR24 and beyond: Reflecting customer preferences in future price reviews* and we also appreciate the early engagement on this key topic for PR24.

We are pleased to see that the first of Ofwat's goals is to maintain, or strengthen, the overarching principle that companies are responsible for managing their relationships with their customers and responding to their needs. We firmly believe we do take responsibility and manage the relationship with our customers.

At PR14 and PR19, customers were at the heart of our business planning processes. Building strong links and collaboration through customer engagement was a key feature of our high-quality business plans and our innovative performance sharing and reporting framework, 'WaterShare' has been central to our engagement with customers since 2015. Evolving into Watershare+ it continues to deliver a transparent and consultative framework for engaging customers, overseen by an independent WaterShare+ Advisory panel.

We recognise the benefits of applying a common engagement approach around issues central to all companies, so that results are comparable and applicable to all in particular we welcome a more centralised approach to engaging on updates to the outcomes framework and changes in national policies. These issues affect all companies and customers in the same way, so it is

difficult to understand why customers of differing companies would have notably different views on national policies and key regulatory mechanisms. Consistency here seems reasonable.

Overall, we welcome Ofwat's steps to improve consistency to provide the regulatory confidence in company customer research. We see a role for national, regional and company specific engagement to ensure that alongside areas that are common to all customers regional differences are accounted for.

We provide further comments against the questions in Appendix 1, and we hope you find these helpful.

Yours faithfully



Sally Mills
Regulatory Director

D: [REDACTED]

E: [REDACTED]

APPENDIX 1 – SWW RESPONSE TO CONSULTATION QUESTIONS

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

We are supportive of the goals set out by Ofwat, which aim to ensure companies build and maintain strong relationships with customers, enabling them to understand and respond to customers' diverse needs. We see these goals as already in place and working well in South West Water. As such our aim is to build on these goals within our company, i.e., we want to continue to engage customers in line with these goals to inform future price reviews and our business as usual ways of working; and we want to build on our existing detailed knowledge of customers preferences and priorities.

We firmly believe we should and do take responsibility and manage the relationship with our customers. At PR14 and PR19 customers were at the heart of our business planning processes. Building strong links and collaboration through customer engagement was a key feature of our high-quality business plans and our innovative performance sharing and reporting framework, 'WaterShare' has been central to our engagement with customers since 2015. WaterShare delivers a transparent and consultative framework for engaging customers, overseen by an independent WaterShare+ Advisory panel.

PR14 and PR19 both saw step changes in our conversations with customers. PR19 was our most extensive research to date, providing high-quality feedback on a range of topics including asset health, resilience, business plan targets, incentives, affordability, vulnerability and the environment to inform and shape our proposals.

Since PR19, we have continued to embed further research activities into our business as usual approach. By understanding the information that we and our stakeholders need to ensure effective strategic planning and day to day delivery, we have continued to enhance our business as usual engagement.

For example, we have introduced monthly monitoring of customer priorities in our long-term tracking research, in order to ensure that our understanding of customer views is not misinformed by the influence of external issues. We have already observed that customer priorities vary seasonally (for example bathing waters are more important as a priority in summer than winter) and in response to unusual weather and one-off events (e.g. Covid-19). Tracking over time gives the true underlying view of customer priorities as well as how much they can change due to external influences. Tracking over time also provides a larger dataset in total, allowing more detailed analysis by customer segments to be undertaken.

We have also sought to bring all the insight together into a business as usual customer database. We have combined and linked PR19 and subsequent quantitative data, along with historic and current tracking data in a single database. This has linked tens of thousands of customer views over time (via a set of common questions on demographics and attitudes); and we are using this to understand customers views in a way previously not possible. We can better understand views and trends over time, in aggregate and across customer segments, across key issues such as the environment and affordability. This is proving invaluable to our business as we look to drive performance for our customers and is supporting our preparations for PR24 and beyond.

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

We believe that some of Ofwat's thoughts outlined in their "Tapped In" report are still relevant and important. This report highlighted the importance of adopting a customer culture, moving customers from passive to active *participant*, recognising that customers are not simply the recipients of our services, but have an important role in the delivery of services.

Our Watershare+ mechanism is one such way in which we have increased customer participation. This has allowed us to offer customers a stake and a say, through issuing shares and a customer Annual General Meeting which gives customers the opportunity to speak directly to our Board and management team and have their say.

We believe that participation and empowerment are important aspects of our engagement strategy, and we see these are important components of the goals listed by Ofwat.

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?

We recognise the benefits of applying a common engagement approach around issues central to all companies, so that results are comparable and applicable to all. Like Ofwat, we wonder to what extent differing methods and applications can cause differences in observed results.

In our experience, trust in the outputs of research stems from the ability to understand and explain the results. Consistency of research is important – even when trialling innovation. Driving consistency through our research has been a key tenet of our customer engagement strategy.

For example, for PR19, in collaboration with our WaterFuture Customer Panel (WFCP), we developed a consistent process and sampling strategy to quantitative research. This outlined:

- Principles of research, e.g. the process we would follow to engage customers from developing and testing materials to ensure understanding and minimising fatigue; through to the analysis and interpretation of findings
- Consistent customer segments considered across all research (including standardised bandings such as age and income bands)
- Sample sizes – to cover both of our operational areas, and be large enough to allow drill down to the customer segments with statistical accuracy
- Fieldwork methods – the use of one to one v group methods; and the mix of online, in person, and telephone methods
- Quotas and targets to apply consistently.

We have updated our sampling strategy for the period 2020-25, maintaining these principles.

We recognise that some outputs of engagement are more sensitive to the way in which the engagement is carried out. Willingness to pay is one such area. We were one of the companies that used multi-stage/method willingness to pay research, so we could apply the methodologies in different ways and triangulate the findings. We triangulated the findings with the support of our WFCP, following a transparent process (which was built on the CCW triangulation report and HM Treasury Magenta book).

Having seen the benefits of consistency ourselves, we are keen to understand how consistency could be introduced in practice across the industry.

High quality research involves using robust methods, with sufficient sample sizes to assess customer views at the company and segment level. Future research would need to be broken down and analysed at the granular level – in our case into our SWW water and wastewater areas;

and our Bournemouth Water water-only area; as well as by customer type; in a way that allows it to be triangulated with other sources of information. We believe this is essential.

We are keen to work with Ofwat to understand whether a prescriptive approach is more appropriate by ensuring consistency whilst allowing companies to maintain ownership of their relationship with customers; allowing companies to combine common and local issues together; and encouraging innovation. Given the outputs of engagement need to do more than support the five-year business plan, this would also give the flexibility for companies to collect the data they need for day to day decision making and delivery.

Whether this research is delivered collaboratively or through prescriptive guidance, it is important that there is a common approach around how:

- common measures or issues are described to customers
- bills and inflation are explained (e.g. real v nominal)
- bills are presented and profiled over time (e.g. average bills overall v average bills split by metered and unmetered v customer specific bills)
- aspects of performance is presented (e.g. normalised or absolute, units of account, presentation of risk information)
- how water and wastewater aspects of service are presented across research, avoiding whole part bias
- outputs and analysis are specified (e.g. per household or non-household value v aggregate values; point estimates v ranges of values)
- key questions, options and choices are presented

We would welcome working with Ofwat and stakeholders to share our lessons in how we addressed these consistently across our PR19 programme and in subsequent research.

With regard to whether the centralisation of willingness to pay research will lead to significant cost savings, whilst we would expect to see savings from jointly specifying, analysing and reporting the research, the highest cost in willingness to pay studies are survey fieldwork costs; and we do not believe these will be lower given the need for sample sizes to remain sufficiently large to allow analysis by region and customer segment.

We also believe the company resources used in data collection, survey testing, playback and triangulation processes would also be largely unaffected by centralising the research. Furthermore, if companies need to undertake and triangulate additional willingness to pay studies to augment the value of common performance areas with bespoke aspects of performance, overall costs could indeed be higher.

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?

We welcome a more centralised approach to engaging on updates to the outcomes framework and changes in national policies. These issues affect all companies and customers in the same way, so it is difficult to understand why customers of differing companies would have notably different views on national policies and key regulatory mechanisms. Consistency here seems reasonable.

In understanding where else to undertake nationwide research, we believe it is important to recognise that PR19 has already provided industry level benchmarks and building blocks to progress from, therefore future engagement will not start from scratch. For example, much is already known about how customers perceive the current regulatory framework and PR19

willingness to pay evidence for both common and bespoke measures have already been compiled and assessed by Ofwat; providing companies with a range of upper and lower quartile values to compare future results to. We believe this starting position on customer insight is important to recognise and build on.

Despite the wealth of information that already exists, we recognise that additional research will be needed to support future price limits and Ofwat's evaluation of future plans and we welcome engagement at differing levels to meet these needs. We see a role for national, regional and company specific engagement.

We are keen to understand whether it is preferable to centralise or standardise willingness to pay research. We use willingness to pay studies to provide a set of valuations aligned to our risk and benefit framework. We assess current and forecast risk and performance through a set of KPIs, which includes our performance commitments as well as other important aspects of service. Overall, this framework covers water, wastewater, the environment, customer service, health and safety, and wider societal public value impacts. These KPIs are embedded in our decision support processes and are each assigned a willingness to pay value based on triangulated customer evidence. We are aware that other companies have similar frameworks, but there are likely to be differences across companies, which would need to be considered in a programme of multi-stage engagement at the national level.

Moreover, willingness to pay studies provide insights into customer priorities and trade-offs at a more granular level, which would also be important to capture through a national programme.

Overall, we welcome Ofwat's steps to improve consistency to ensure that at least some willingness to pay studies are comparable across companies. If willingness to pay research remains at the regional or company specific level, we would see a role for the early sharing of the findings, say through Water UK, to foster improvements in transparency and triangulation.

Stakeholders and organisations

We believe that there is a key role for stakeholders. We would caution against organisations that are not independent in the industry taking the lead in delivery of the research. Rather, we favour a tendered process whereby an independent supplier is appointed, with Ofwat and/or Water UK as the contracting party, with a steering group consisting of water companies and stakeholders. Additional expert advisors could be appointed to provide challenge and support around technical issues to ensure a balanced, robust approach is adopted.

We believe the recent project *PN 24/20: Report published examining potential impact of COVID-19 on the water sector* demonstrates that this approach can work. Ofwat and Water UK, supported by the steering group, successfully worked together to deliver this important project.

Timing of the research

Our PR19 and subsequent research has demonstrated that repeated conversations with customers, using a variety of forums and methods, are the best way to build up a picture of genuine customer views. For example, we have four ongoing studies providing up to date insight from customers (tracking customer priorities and preferences, affordability, vulnerability, and post-incident research). Our multi-stage/method willingness to pay was conducted over a 18-24 month period in the run up to PR19, and therefore reflected seasonal issues, external shocks and a variety of weather patterns.

We would urge Ofwat to ensure research that can be influenced by such factors is spread over time where possible. Split samples, taken periodically, potentially trialling a mix of methods can build confidence in the results.

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?

We believe it is appropriate for the current assurance framework to mature, in particular we see the role of CCGs evolving to be a good step forward.

In our own experience, a CCG's strength lies more in strategic challenge around the purpose of research and how it will shape and refine business plans rather than checking surveys or scripts question by question. Collaboration and/or prescriptive guidance would allow CCGs to step away from challenging survey details in depth, allowing them to focus more at the strategic level. It would also provide the basis for a business as usual role rather than just supporting the price review process only.

Our independent WaterShare+ Advisory Panel which has evolved since it was established to oversee delivery of our PR14 plan, now advises on the interests of our customers by providing independent review on elements of our PR19 business plan (including our commitments and Board Pledges) uses customer research and engagement, alongside performance data to inform its discussions with us.

Where national research is appropriate, we believe a guidance document, akin to our own sampling strategy, would be very helpful to develop in advance of any national research being conducted. This would set out the processes to be followed including the role of companies and stakeholders in contributing and working together to design, deliver and interpret the research.

Where it is more appropriate for regional or company level research, we consider guidance from Ofwat would be welcomed. We would trust this would focus on addressing key methodological, design and analytical issues. This would need to recognise the range of research conducted by companies.

Acceptability research is a particularly important element of the business plan process, that could benefit from more prescriptive guidance to drive consistency and comparability and provide confidence to the Regulator in its outputs, as we believe this should continue to be carried out at a company level.

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 use of experts to challenge and steer our plans continues to be our preferred approach, at PR19, to help our WFCP, as well as providing assurance to our Board, we employed a twin track assurance process.

- We employed academic peer review of any econometric models and statistical methods used to assess customer data. This was important for our WFCP who wished to see full assurance on all the statistical analysis undertaken in our customer research and triangulation processes.
- We also employed peer review of the application of the findings, i.e., how the research was interpreted and applied in the business plan. We found this equally valuable, giving additional assurance to our Board and our WFCP.

This multi-layered approach provided us with a range of challenges, recommendations and insights impacting on the development and use of customer research. Our use of experts to challenge and steer our plans would be our preferred approach.

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?

We built on our engagement methods used at PR14 to develop our PR19 research and engagement, and we consider there are elements that should continue to be used in the future.

One such example is, an interactive engagement video. Having seen this successfully applied in other industry settings (e.g. the insurance market), we used this to engage customers on our water resources plan. The interactive tool enabled us to, engage, educate, inform our customers on long terms issues as well as gather feedback.

This dynamic approach was very successful, maintaining high levels of interest from customers. It is our plan to revisit interactive methods in our future engagement with customers – both by using this video platform and building dynamic pathways into our quantitative surveys.

Another example is our rolling programme of post incident surveys, where we talk to customers about issues that have affected them, shortly after an event has taken place. Whilst initially developed to support our willingness to pay programme (to understand revealed preference) we have found these to be incredibly invaluable in understanding how our operational, call centre and communication processes work and dovetail together, driving improvements in our performance.

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 have tracked engagement developments in other sectors in research methods, visual aids, data analytics and integration and adopt this into our engagement plans.

Some of the less used methods and forums are extremely useful to include in engagement plans, such as interactive and co-creation methods. The independent WaterShare+ Advisory Panel meetings in public provide another important way to engage with customers.

We continue to use a mix of traditional and new methods as well as different channels, as this provides real insights into customer views.

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

Overall, we believe that we can engage our customers on our business and our business plan. We do not believe there is any subject that should not be discussed with customers. We consider it our responsibility to take the time to give customers the background and information they need to make informed decisions about business plans that affect them, and to present the ideas and issues in a non-technical but accurate way.

Having spent time to build our relationship with our customers, we consider it essential that this is maintained.

In our experience, there are numerous ways to ensure customers are engaged and have the right background to provide the necessary insights, such as including building up the knowledge with repeated co-creation sessions with groups of customers, drawing on the expertise of our WFCP and Watershare+ panel members, and ensuring a robust challenge and testing process around engagement.

We have found that research agencies that specialise in utility markets have a stronger appreciation of issues affecting the water industry and this level of expertise has been useful when discussing less well understood issues with customers.

For example, we can talk to customers around resilience and risk, it was clear from PR14 that presenting low probability events as *1 in X years* was a challenge for some customers, but since then a number of UKWIR projects (e.g. around water resources) has provided guidance that we have found very useful and workable.

Overall, it is important to be clear what role the customer view can have. There is little point in communicating issues to customers in detail if what is needed is broad principles and strategic input, or asking customers views on services and outcomes they are not able to influence.

We do therefore think customers can be engaged on all issues, but this needs to be undertaken carefully and thoughtfully.

Q11: Do you think there are other ideas we should be considering for shaping customer engagement at future price reviews? If so, how would these ideas help deliver on the goals proposed in this paper?

We believe companies should be encouraged to bring together all touch points from customers. For example, we do track customer views through social media and our contact centre, as well as post incident surveys on the ground following operational events. Collectively, this alongside our organised customer research gives an in-depth view of customers priorities and preferences.

However, we believe future engagement must be mindful of proportionality (and materiality), as set out in Ofwat's goals. We question whether companies that are not asking for a price increase can reduce the level of engagement, and we question whether competition across companies in terms of who can engage the most customers is appropriate.

We see the potential success of PR24 as being the ability to build on our extensive understanding of customer views built up over PR19 and subsequently, using a proportionate and transparent process to refresh our understanding of existing topics and build our understanding around new issues. Our objective is to achieve a more targeted, yet effective, programme of research for PR24 that aligns with the goals set out by Ofwat.