

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

Southern Water response

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from
**Southern
Water** 

Summary

In December 2020 Ofwat published its discussion paper PR24 and beyond: Reflecting customer preferences in future price reviews. We have reviewed the paper in depth and welcome the opportunity to reflect on the questions highlighted in the discussion. We also very much appreciated being part of the Ofwat run workshop on 22nd January 2021 and look forward to future opportunities to feed in views, as the goals and plans develop. The drive for continual improvement is important and we would like to ensure plans consider the longer term impacts, as well PR24 in the short term.

Engagement plays a key role in ensuring we deliver better outcomes to customers. At Southern we support any developments that enable customer preferences to be better reflected in decision making and we are proud to be part of the success of PR19 in setting the engagement benchmark higher. We recognise the lessons learnt around PR19 and in particular the difficulties that can arise from comparability across the sector and fully support Ofwat's aim of improving future reviews. We have our own set of principles for engagement (appendix 1) that have been invaluable in our continued transformation around the use of regular engagement over the last few years.

We agree with the aim of all the suggested goals from Ofwat, although there might be an opportunity to make the lead goals more proportionate. For example, if you were to simplify the goals around 'broadening value' and 'enable companies' into 'recognising preferences', the remaining goals feel of similar importance. The development of the detail beneath these goals will be crucial in their application, and ultimately how improvements to engagement will drive better outcomes for customers.

In principle, we support Ofwat's idea around centralising some elements of customer engagement and on balance we think the benefits outweigh the concerns. We understand there will be mixed views and appreciate the concerns, particularly around regional differences and innovation. We feel that the role of a national framework would not be to limit the aspiration but to set it. We believe the improved comparability at a higher level would then allow companies the flexibility to demonstrate where material differences exist and focus their tailored engagement where it matters most. From our own experience we would raise a concern on the time it can take to deliver such programmes, so looking at enhancing broader collaboration across regional engagement could also be considered.

Improved comparability will ultimately lead to a clearer line of sight in how customer preferences are driving outcomes. This transparency would be needed from both water companies in how they are applying what they learn and Ofwat in how they are assessing customer preferences and reflecting this in price limits. This clarity on assessment would mean the design of company tailored engagement plans can target the areas where customer choices can make the greatest difference.

In the discussion we feel the use of existing and business-as-usual (BAU) insight should be more strongly referenced. By continued dialogue with customers we are able to have a much richer view on where customer views may change and therefore enable future research to focus in the right areas.

Assurance and review is crucial to any continual improvement programme and we recognise the extensive value CCG's brought to drive better outcomes to customers at PR19. We believe that clarity of the objectives of assurance is needed but with flexibility as to its precise form and make up. While CCGs added value at PR19 there may be other models that are more appropriate for the future. Flexibility will allow for the interconnectivity of stakeholders, industry groups, customers, citizens and regulators to all play their role in future price reviews. We believe this should look to PR24 as well as longer term strategy looking towards our water future for 5, 10 and 25 years ahead.



As with engagement generally, it will be important for CCGs or their successors to be able to see clearly how their views have been reflected in Ofwat's decision making.

Detailed Response

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

In principle we agree with the proposed goals and believe they can all play a role in the continual improvement of customer preferences being reflected in price reviews. We would reflect that not all of the goals appear to be of equal weight in their priority and as such there may be scope to merge one or two. Critically the detail that sits beneath these goals and how they will be applied to future price reviews will be incredibly important and we welcome further opportunity to feed into their development.

- **Goal: Enable companies** - to take responsibility for their relationships with their customers

We agree that this is an important goal. Customers recognise that the relationship they have is with their water companies and they value / enjoy the engagement opportunities to drive business decisions. Whilst we agree with the goal, it feels less aspirational than some of the others. This is because it feels like an already established way of working across the industry, so there is perhaps an opportunity that could form part of the application of a different goal (e.g. Recognise preferences).

- **Goal: Recognise preferences** - so that price controls are tailored to the specific needs of customers and communities

Again we recognise the importance of this goal. Its inclusion ensures that the changing landscape of customers and communities is always reflected. There is no 'one size fits all' solution and as companies we need to be able to represent our regional differences. In the application of this goal we believe consideration should be applied to all of the different citizens we serve including: regional differences, attitudinal segments, businesses, stakeholders, customers in vulnerable circumstances, those with affordability concerns, future customers, diverse cultures and those that are disengaged who often might not have a voice.

- **Goal: Foster collaboration** - so we learn from each other when working to understand what matters to customers

We would absolutely agree that greater collaboration about what matters to customers is an important goal for price review engagement. We would also add that consideration of how this also applies to BAU engagement / insight could be reflected. Collaborative triangulation could provide greater consistency and clarity on where customer views align and differ. We also believe that the collaboration should extend to how we approach engagement, not just what we learn from it. Greater application of best practice and sharing across companies could lead to enhanced innovation and the development of new practices.

- **Goal: Promote transparency** - so it is clear to all parties how customer evidence is being used in decision making

We would strongly agree that clarity on how customer insight will be used would drive more efficient and impactful programmes of engagement. This transparency should extend to both how companies use what they learn but also how Ofwat assesses the role of customer views and reflects this in price limits. Transparent expectations will mean we're all able to build engagement approaches that proactively reduce future points of difference.

- **Goal: Increase proportionality** - so that the focus is on producing high-quality engagement instead of lots of it

Again we agree that the focus should be on high quality engagement in areas where the customer can make meaningful choices that will ultimately drive change. We believe that this will need greater balance given to well executed qualitative research over a current bias for high volume research. CC Water's review of the PR19 engagement highlighted the same points. It is important to recognise that there are some issues, such as those relating to technical financial issues, where eliciting customer views is both very challenging and unlikely to add value.

- **Goal: Broaden value** - so that companies understand people's views as citizens and their views as customers

We would agree that citizens views are a crucial part of engagement and water powers everything we do, not just the bill payers – which has been a primary driver on our approach to engagement. Often the view on water and customers within the industry can be quite literal and narrow in places. We would challenge to think about the whole of the UK and the international circumstances. Within the UK thinking of consumers, water citizens, water participants and stakeholders – both current and for future generations. This goal feels like it could be covered by the specific needs of customers and communities (within Recognise preferences). Therefore, this could potentially sit beneath this broader goal.

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

There are two areas we would look to highlight that we think should feed into the goals.

The first is around integration of existing and BAU engagement. There is such a wealth of insight from companies, industry bodies and previous price reviews that could form a more centralised role in the future. Through ongoing dialogue with your customers you have a much greater understanding of how views are changing and why - so the scope of engagement can focus where it's most needed.

From previous price reviews the insight collected could be triangulated to provide a national customer view and benchmark to inform the next review. Whilst the application here would look quite different, one of our customer participation principles is around integration – and the slide in appendix 2 helps to demonstrate this.

The second area we believe is important to consider is about putting the customer first in the way we engage. We know customers all have busy lives and engage with the water industry in different ways, so we need to make it easy for customers to engage. If we think more about the interconnectivity of engagement programmes, we can ensure views come together and we better understand where differences arise. It's also a better experience for our customers and increases the desire for continued engagement.

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?

In principle we agree that national evidence of customer preferences would be beneficial. We appreciate concerns around the impact this could have on innovation and the focus on regional differences. However, on balance we believe that the benefit of increased comparability would outweigh those concerns. Ultimately, we feel that a national framework would not limit but could actually set aspiration – and this would underpin the extensive tailored engagement that would remain as part of the process. Collective research would also be able to tease out where local factors elicit the greatest difference in customer's views. This in turn would enable a stronger focus on these issues with companies' engagement plans.

Careful consideration is needed to build the right approach that would limit concerns and potential downsides. We believe that a higher level 'one version of the truth' and an emphasis on regional engagement (where it can drive the biggest change) – will ultimately lead to better outcomes to customers through the price review process.

In our experience, one area to consider is the time such a programme would take, particularly for PR24. Whilst the plan submission for PR24 is around 2 ½ years away, this kind of programme takes a long time to set-up and run and will evolve considerably through the process. Companies would need the information early in any price review process to enable the plans and regional engagement to develop from this national framework.

We have worked with WRSE on joint engagement for the development of the regional WRMP. In our view, the programme has been hugely valuable. We would fully endorse this approach, although it has taken over a year to arrive at the clear conclusions due to the complexity of working across such a range of stakeholders, companies and customers. Crucially it involved an initial triangulation of all existing insight (from all WRSE companies), which created an initial 'one version of the truth' that is credible, robust and comparable. Given the issue of timing, it could be that region wide work in consistent methodologies could represent a half-way house to help test some of the processes, iron out issues and limit any potential downsides.

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 believe the aspects where collaborative nationwide research should focus are when the benefit of comparability will outweigh any concerns about representativeness, and where the content can be consistent across the regions. The lessons learnt from PR19 are showing that comparability issues can weaken the industry's ability to be transparent in how some areas of customer preferences have driven the outcomes. Greater clarity on how these preferences have directly driven outcomes will improve the experience to customers, enhance reputation and ultimately the legitimacy of the sector. The key areas we believe a national framework could play role would be at the higher level views around priorities, valuations, support for social tariffs and acceptability. With a higher level and consistent feedback, companies could then use a comparable view and build out from there - to demonstrate the differences from their tailored engagement.

All companies will want and need to play a role in steering this research, which as mentioned in our response to Q3, would take considerable time. It would also be difficult to manage from a research agency point of view, so this would need to be considered so we don't limit which agencies are able to put forward an innovative approach. We would expect a combination of CC Water providing support on best practice and Water UK facilitating company views would seem a sensible approach. To be innovative, it could be an opportunity to try out a citizen assembly or selecting a group of customers to be directly involved in developing the approach that they think would work best for them. In our continual BAU insight we have found that given industry problems, customers provide a fresh perspective on solutions – and given we are building their future, it seems fair to consider how they could directly be involved.

Any undertaking of this research would need to be highly collaborative across all the companies, CC Water and Water UK. Stepping outside of the limitations of PR24, having the time to run the programme and the use of existing sources is absolutely key. With the wealth of insight already available, a triangulation exercise led by experts should be able to guide the areas of commonality and difference. The areas of difference are then what can be explored for the research.

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?

Irrespective of a national framework there is still a great need for extensive local engagement by companies in relation to regional issues or where there are likely to be specific regional differences. Assurance and review is a key part of a continuous improvement journey, however, the role varies depending on the issues, experience and situation of each company. Clarity is needed around how engagement is being used (by the companies) and how it's going to be assessed and incorporated into price control decisions (by Ofwat).

CCG's (or similar) role will need a clear set of objectives, although we believe flexibility is needed as to the relative importance of those to individual companies, as well as the form and make-up of these groups. For example, companies without an insight team will likely need greater scrutiny on their approaches compared to those with expertise in-house. We think this guidance should stretch to help looking not just 5 years in the future, but 10 and 25 years ahead to our water future.

For areas that require comparability - where a national framework is not used, best practice guidance for approach and stimulus is needed. Whilst this won't remove all differences in customer preferences due to varying approaches, it will greatly reduce the impact on comparability. Best practice and greater sharing of lessons learnt around engagement is important to drive innovation and continual improvement.

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

Similar to our response to Q4, we believe that further guidance is required where the need for comparability outweighs the potential concerns. In exploration of which programmes would most benefit from the national framework we believe continued close working and dialogue across the companies, CC Water and Water UK is needed. Whilst differences are still likely to remain, workshops like Ofwat ran on the 22nd January 2021 allow companies to be part of that process. There is a lot of engagement and insight expertise across the organisations which can be used.

One area to consider is to try and build any framework in a flexible and collaborative way. We think we need to be careful not to create an industry itself – it needs to be about driving better outcomes



for customers. If the assurance is flexible (as referenced in our response to Q5) this means the individual circumstances are considered so we can focus on better outcomes to customers, rather than risk creating a 'tick box' requirement.

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?

As well as flexibility, the interconnectivity of different groups, stakeholders and customers should be an important factor. Companies have a number of different groups and panels they work with and in our experience by bringing together those diverse views you get a much richer level of assurance. Whilst any model for assurance changes, an example of the importance of interconnectivity can be seen in appendix 3. Given the flexibility to build a bespoke model, this slide shows how we consider the different groups and how bringing together those systems could work together.

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 sector produces a lot of extremely high quality research through methodologies that have been developed, refined and iterated over many years. Research is mainly designed for the decision makers, and when compared to other sectors there is often a wide range of views in an organisations' leadership. For the Price Review process this does mean some research is designed to speak to regulators. This can lead to some outputs feeling less accessible due to the complexity, but we appreciate that it ultimately needs to be useable by the lead decision maker.

There are no particular approaches we would recommend to review, although we would consider a greater drive to put ourselves in our 'customer's shoes' by making insight more accessible to our customers through the outputs speaking in their language to be important.

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?

The main area we recommend is greater focus on BAU insight, rather than on periodic reviews. Continued dialogue with customers ensures we understand why views and preferences change as they develop over time. With greater emphasis on the changing nature of customers we are then better able to use existing insight and focus the tailored price review engagement in the areas that need it most.

One area that could be considered from proposition development is a greater emphasis on Agile's theory of sprints. For example, this continued consultation could be run through rapid development sessions. These sessions essentially ensure you get the right people together and focus on the one task in hand over a series of sessions / days. At the end of the sprint you make significant progress quickly, but you also tend to get collective buy in from those involved. The workshop ran by Ofwat on 22nd January started this process and with continued dialogue across organisations, it could prove beneficial to use this approach.

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

Given the right level of information, stimulus and time customers should be able to make informed decisions around most areas of the sector. The one area which due to its complexity and sensitivity that is often difficult to navigate is around financial structures. We also know that whilst the rationale of financial incentives and rewards is understood, the concept of ODIs is difficult and confusing. This is an area where we may need to think about a new way to engage.

Our example shown in appendix 2 (and discussed in Q2) shows that insight also comes from expertise and leadership. Whilst we believe we can engage with customers on almost anything, actually resource should focus on where customer's choices can make the greatest impact. Where leadership is used to drive decision making we should be confident in our credibility and transparent about the choice we are making for customers.

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?

In our other responses we have highlighted the key ways we think we could shape engagement for future price reviews. These include the greater use of BAU and existing insight, flexibility to allow the interconnectivity of assurance and to use this consultation as a way to challenge our approach – perhaps even thinking how customers could directly feed in?

Appendix 1

Our principles used when developing approaches to engagement:

Customer Participation Principles



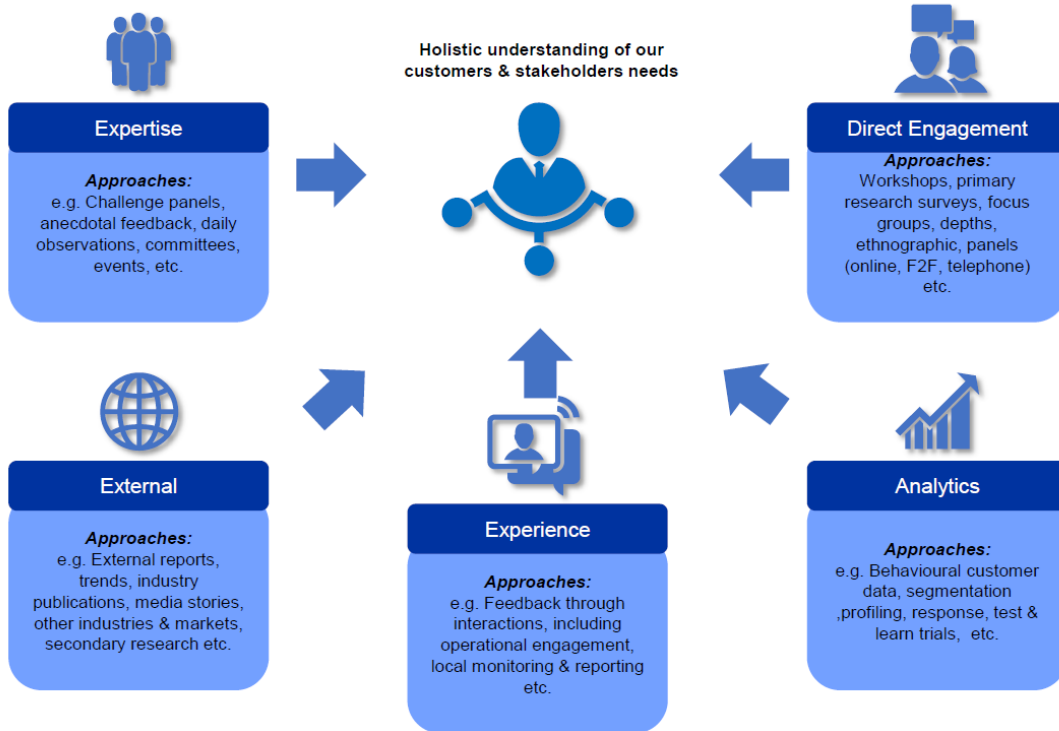
Appendix 2

An example of how different existing insight sources are used to reflect customer views:

Integration - The Methods of Insight

A complete understanding comes from capturing insight from 5 key methods

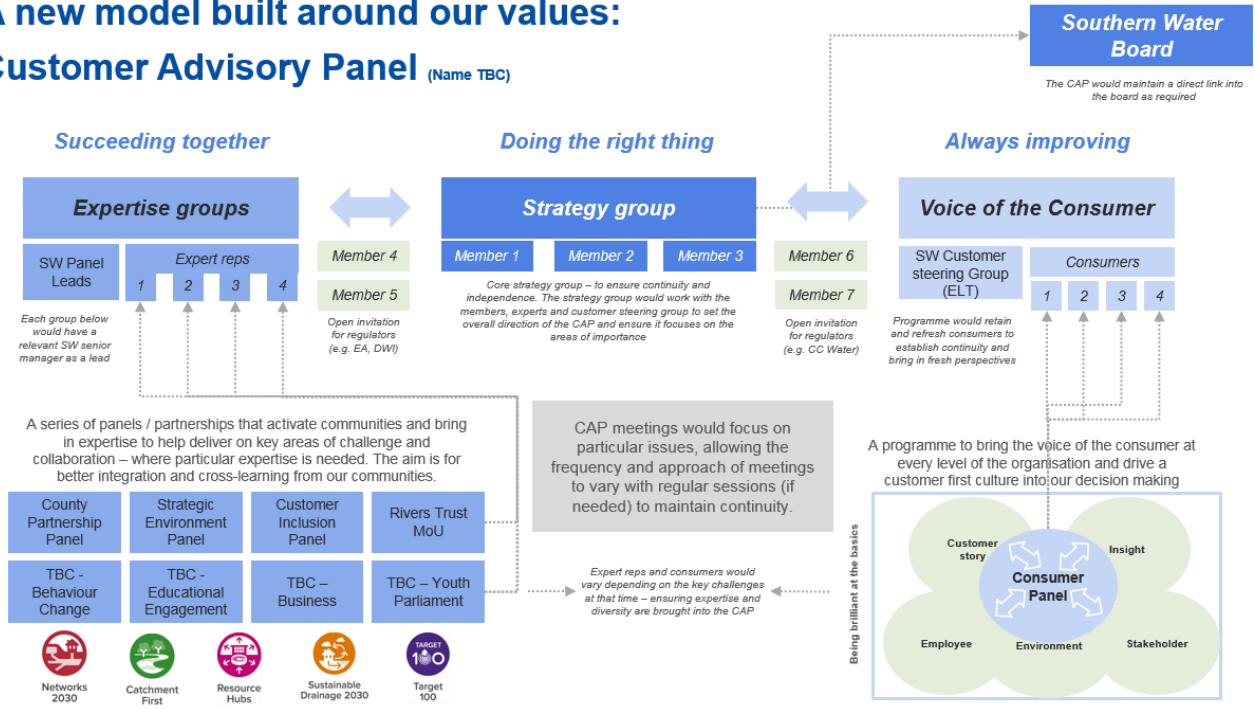
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Appendix 3

An example how flexibility is needed to ensure we consider the interconnectivity of groups in providing assurance:

A new model built around our values: Customer Advisory Panel (Name TBC)



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