

### Introduction

United Utilities welcomes the opportunity to comment on Ofwat's discussion paper on reflecting customer preferences in future price reviews.

We have responded to each of the questions set out in the paper and have also set out some additional comments and ideas where appropriate to do so.

### Questions

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

United Utilities supports the six goals outlined in the paper. We believe that engaging with, and reflecting customers' views of how their water services should be prioritised and delivered, is of crucial importance to the legitimacy of the work we do.

United Utilities has invested substantially in understanding how customers view what we do, and to help them guide us on how we can improve. The proposed Ofwat goals effectively articulate the key enablers that need to be in place to empower companies to effectively capture customer insight and use that insight to continually improve service and meet customers' priorities.

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

United Utilities believes the description of the current goals can usefully be expanded to more explicitly focus on key customer groups. The topics of accessibility, affordability and the views of vulnerable customers are a very important aspect of any customer engagement process, and in developing these goals Ofwat can more directly make reference to, and highlight the importance of capturing views from, these key groups. We also believe that drawing specific attention to developers, non-household customers and non-household retailers would emphasise the importance of engaging with these groups as well.

United Utilities would also welcome the expansion of the 'increase proportionality' goal to include an emphasis on timeframes. Early visibility of the outputs of research enables them to be fully understood and correctly incorporated within a business plan. Any outputs received towards the end of the business plan process will naturally receive less emphasis. There is also a substantial efficiency benefit from timely customer insight, as it reduces the amount of planning rework needed to adapt plans to meet customers' preferences.

Additionally, when new topics suddenly arise for consideration, there is often a requirement to quickly canvass and understand customer views. Occasionally, when research is done reactively within a short timeframe, neither costs nor quality of research are likely to be optimised. The business planning process would therefore benefit from an understanding or guidance on where existing engagement that has already been undertaken is sufficient or the limit to where additional work is required.

### **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?**

United Utilities agrees in principle that in areas of common concern to all customers within a nation, evidence of customer preferences could be generated in a consistent manner. We understand concerns that variances in customer research results at PR14 and PR19 are difficult to explain based on regional differences alone. We agree that this consistency could be achieved in a range of different ways, including nationwide, centralised research or robust guidance that all companies would be expected to follow.

If the principle of pursuing a consistent approach across nations is taken forward we believe strongly that for this concept to be successful several key components must be in place:

- **Company engagement** – It is absolutely crucial that companies are able to actively and directly contribute towards the development of research approaches, and interpretation of results. Enabling companies to have direct involvement is necessary if there is to be any prospect of companies 'owning' the results. We do not consider that coordination through organisations like Water UK or a subset of companies could be sufficient in order to allow management and Boards of water companies to feel and attest to ownership of the results and their legitimate application to the company business plan. If companies are not directly engaged with the process then the perceived lack of transparency that Ofwat is seeking to resolve will simply be displaced, resulting in companies being unable to reconcile the imposed outputs with their own understanding of customers and the service in their region. To the extent that companies lack confidence in the outcomes of research because – for example – they were insufficiently able to participate in assuring its appropriateness and design, the results of research are likely to lack legitimacy. Requiring these to be the foundations of business plan proposals will present substantial challenges to the concept that companies and Board have ownership of their plans and their ability to state with confidence that the plan they are submitting is capable of delivering on customer priorities.  
Given the centrality of customer preferences and customer research to developing business plans, it would be unacceptable for United Utilities to be represented by an intermediary as the design of customer insight programmes is developed. We therefore firmly believe that if a common or consistent framework is to be adopted, it is essential that every company is able to meaningfully contribute towards the approach and thereby have material ownership of and confidence in the outputs.  
In particular, it is important to ensure that companies consider the questions, context and research approaches utilised to measure customer preferences are fair, appropriate and unbiased in order for the results of such research to be fully embraced in designing and delivering a high quality business plan.
- **Timeframe** – all research and outputs must be delivered in a timely manner. Late delivery increases the burden on a company and can lead to a lack of understanding and the incorrect integration within a business plan. Whilst much customer research is an ongoing activity, specific price review research is generally scheduled well in advance in order to maximise its usefulness in drawing up business plan proposals. We would be concerned if a common framework necessitated later delivery of results as this would impede our ability to design the plan based on customer preferences and customer insight.
- **Challenge** – beyond the established challenge processes inherent within a price review it is important that individual companies must retain the option to build upon or challenge the

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results where applicable if they believe, and can evidence, that there are additional or contradictory insights which should be taken into account in developing the company's business plan. Our view is therefore that a commonly generated baseline of customer understanding should be capable of being supplemented by additional evidence and that Ofwat should be open to receiving and considering the application of this where it provides the opportunity for business plans to better reflect local customer preferences.

- **Sufficient resources** – linked to the need for timeline research is the need to ensure research budgets are sufficient to ensure adequate sample size and research techniques, not just at a national level, but a regional and even local level, across a wide spectrum of customer segments. Research must also be designed in a way which ensures that customers are fully engaged and widely represented. Past experience with regulators in research design and sample sizes does give rise to some concerns about the scale, adequacy and depth of future research. Commitments early on to achieving key best practice standards of research quality would be helpful.
- **Achieving best practise standards**- There should be a recognition that national research reaches a high standard, and that it demonstrably achieves best practise standards. To this end a commitment early in the process to submitting all proposed research to independent and transparent review and challenge would help gain wide ranging stakeholder engagement. Demonstrating that research has been subject to expert oversight at multiple points during its inception and interpretation of results would likely add value to research and support goals of transparency.

We understand that national customer research may, for example, be used to facilitate the generation of a common performance commitment level for all companies to adopt. However, we hope that the regulatory framework will allow individual company research - that provides further insight into the views of its regional customers' views - would also be considered when considering appropriate performance commitment levels and incentives. Regional insight can support and supplement national research, enabling fully justifiable variations from national baseline positions. This could work for example in a similar manner to a simplified 'negotiated settlement' process, but on a small, single topic, simplified scale.

It is our intention to submit a 'blueprint' document into the future ideas lab to outline our ideas on these key components and potentially assist Ofwat with its development.

### **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?**

A national common research exercise will be a complex and technically difficult undertaking. At PR19 companies committed very substantial resource and focus to developing robust and representative Willingness to Pay research. Accurately capturing the preferences of customers at a national level in a manner that commands the confidence of key stakeholders, whilst also ensuring local views are understood and reflected will be even more challenging.

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Centralised nationwide research can only ever be seen as one piece of evidence looking into the local expectations of customers. The regulatory framework underpinning such research should continue to consider both the national and local views of customers. We expect that companies will need to continue to conduct their own research into the views of customers in their local area, and such research should continue to be appropriately included in business plans considered as part of the price review process. It is right that the PR24 process allows for variation in regional approaches where there is clear evidence of customers holding different views to national averages.

If a collaborative nationwide approach for research is adopted we believe that such an approach will need to ensure it meets a number of objectives:

- Focusses exclusively on performance targets and Willingness to Pay for common commitments that apply to all companies. National research will be challenging, the scope of such research should be constrained to only those areas where it can add the most value. Research underpinning company bespoke performance commitments, region specific investment needs, or more general customer preferences should continue to sit with individual companies, as they are best placed to engage customers on the local issues of greatest importance to them.
- Considers the views of a wide range of industry stakeholders, including usual stakeholders such as government, industry regulators, companies; but also a wider group including experts in customer research and groups with expertise in engaging low income and vulnerable groups.
- Is delivered in a timely manner, as this is crucial to effective utilisation of customer research. A date by which the collaborative nationwide research will be concluded needs to be set well in advance in order to ensure that a) companies have a window of opportunity to undertake additional, local research efforts to supplement the national results and b) to provide sufficient time for companies to interpret the research and reflect it in the design of business plans. Our current view is that this needs to be no less than eighteen months before Ofwat expects to receive final business plan submissions from companies.
- As set out above in response to Q3 we consider it important that regional differences can be accounted for in any national research exercise and regulatory process. The voices and unique perspective of Welsh customers should not be averaged away by the views of more populous England, nor should the voices of different regions within England be diminished. United Utilities' service area contains a population larger than that of Wales and it is our expectation that their views will be just as distinctive, notwithstanding that the North West regulatory and legal framework is shared with the rest of England.

### **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?**

In general at PR19 we found guidance available to companies and CCGs to be adequate for the purposes intended. It provided sufficient scope for companies to innovative, and identify new sources of customer insight, whilst providing a generally consistent foundation for key elements of research. Recognising that in the specific area of common performance commitment targets and incentive rates there are indications of inconsistencies across companies' research we do agree that guidance should naturally adapt if some areas of research are covered by national collaborative engagement. However we in general propose that the PR19 framework is retained for other wider areas of customer engagement.

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

As stated in response to Question 5 we would suggest that detailed further guidance for companies and CCGs is only necessary where introducing a national collaborative research exercise, or other wider change. It may help support some companies and CCGs if further explanation and engagement on guidance, and regulatory expectations underpinning that guidance was undertaken.

### **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 primary requirement of any customer engagement should be to achieve an un-biased view of customer opinion that is achieved through high quality and representative research.

To deliver against this requirement, United Utilities has found that our existing CCG, YourVoice, has been able to hold the company to account and continually added significant value and challenge in this area.

We believe that the feedback outlined by Ofwat in its discussion paper in relation to CCGs in general is not reflective of the outputs or operation of the CCG in the North West region. Whilst we are not in a position to comment on the performance of CCGs in other companies' areas, our own experience has been of an effective, independent, focussed, and challenging CCG, that has demonstrably added value for customers and contributed to an effective price review process. This required discipline – both on the part of the company and the CCG itself – to deliver dispassionate and impartial analysis, restrict scope creep and focus on core issues where the CCG could add value to the process. Whilst this may not have been the case across all CCGs, we think that there are examples of good practice which should be more clearly recognised as adding value to the price review process.

Rather than the removal of CCGs from the price review process, clearer definitive guidance from Ofwat on the role of CCGs would be a welcome addition. Ofwat's suggestion of engaging more directly with CCGs, including in the appointments process may help overcome concerns in some areas. We also believe Ofwat could develop an assessment framework for the effectiveness of CCGs and grade them accordingly, using the outcomes to prioritise regulatory oversight efforts. This would potentially allow the influence of an effective CCG to be felt throughout a submission, whilst a less effective CCG would hold less sway and a collaborative national position become the default.

Whilst, ultimately, the decision on the future role of CCGs within the price review process rests with Ofwat we do not support the concept of regional CCGs. We do not believe that such an approach could work in any practical sense, as several companies would be simultaneously competing for their time and resources around key price review milestones, constraining the potential for engagement and involvement. A regional CCG may also suffer from conflicts of interest as it works across a number of different company plans and we consider that it would be unrealistic to expect the same degree of engagement or involvement from CCG members who already have to make exceptional efforts to deliver the required time commitments to support just one company if they were asked to support several concurrently.

Whilst we consider that a mandated regional CCG approach would not be appropriate, we recognise that there may be circumstances where this could make sense if arrangements were voluntarily supported by all parties. For example, it may be possible for two or more companies to voluntarily merge their CCGs where there are clear crossovers in regional activities, for example where a WoC's and

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WaSC's operational areas overlap, or for CCGs to work together on specific issues which are shared across companies and a combined approach would be warranted.

**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?**

At PR19, we sought to ensure that all customer research conducted by United Utilities was accessible, clear and unbiased. Working jointly with our CCG, YourVoice, we strove to ensure that the outputs from customer research were robust, and that customer views were particularly important to designing our business plans. We also sought to triangulate views across a number of different customer engagement exercises and techniques.

Given the unprecedented scale of customer research conducted across the sector it is unsurprising that there are examples of research that is overly complex, difficult for customers to understand, or which asked questions on topic areas that customers were not eager to engage in. We fully agree that lessons should be learned, and that that the sector should strive to improve in this area.

However; whilst some of these issues may be due to poor design, in other cases it should be recognised that innovative research approaches might sometimes carry the risk of failure. We therefore believe that the emphasis should be on seeking to learn from these experiences and improve the quality of customer research that is conducted, not step away from efforts to understand the foundations of customers' views.

Understanding where and in what way research is currently limited or of poor quality is crucial to identifying ways in which it can be improved in the future. For example:

- Quantitative survey techniques for aspects of service valuation ('willingness to pay') are often difficult to depend upon for accurate insight owing to issues already recognised by the water sector and beyond. Stated preference approaches are generally not as effective as techniques that are based on actual behaviour.
- Initial steps were taken at PR19 to pilot and develop techniques to involve consumers in immersive 'real-time' scenarios in order to reveal preferences more effectively (such as service failure role-play scenarios), and were broadly successful. There is potential for this to be expanded at the next price review, and for such techniques to supplement and support more traditional approaches
- Ambitions concerning the use of co-creation and co-design with customers in PR19 requires further development. There remains significant opportunity to increase consumer involvement in not only providing feedback in terms of priorities, but also in solutions optioneering, as well as solutions delivery to fully embed customer priorities into business plans.
- Similarly, the use of pilots, trials and behavioural experiments continue to provide routes to more effectively determine customer priorities and reactions. These approaches greatly reduce the dependence on the largely unreactive and stated feedback provided by preference surveys.

**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?**

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There are a wide range of customer research and insight techniques available. Many of these were implemented by companies at the last price review to varying degrees. All of them have the potential to provide new understanding of how customers view the services water companies provide, and how we might adapt to improve in future.

Some examples of customer research techniques, beyond more traditional survey techniques, applied more widely include:

- **Public immersion and consultation** - Organising a large scale public consultation event to immerse customers in a certain business area and collect views from a large and robust sample. This provides an engagement in the issue through interactive installations and gamification.
- **Ethnographic research** - Observing customer behaviour or engaging in self-ethno to truly understand the customer experience, their attitudes and understand the true context and behaviour surrounding this.
- **Implicit testing/ biometric measuring** - Capturing responses which are implicit, subconscious and difficult to verbalise. This can be through methods such as facial expression tracking, and implicit association testing.
- **Longitudinal research diaries** - Living with customers over time to document behaviour or try to test and trial interventions or new products
- **Semiotics** - Semiotics is the study of images, signs and symbols, and how people respond to them unconsciously. It enables us to explore the cultural context of key brand values and how they are changing, and also how they're reflected across a category and by individual brands
- **Literature reviews/data synthesis** - Analysing existing operational and research data as a whole to understand themes across research projects and subject matter and identify opportunity areas and gaps in our knowledge
- **VR immersion/augmented reality** - Immersing customers in a virtual world using VR could help to engage and simulate events or help customers to visualise the impact of certain decisions. This technology can also help bring to life relatively rarely experienced events for customers that could help identify and refine preferences beyond that which customers would encounter under normal circumstances.
- **Secondary data and consumer trends** - Understanding how wider macro trends may be affecting customer behaviour, attitudes and decision making
- **Geo-targeting techniques** - that are increasingly used in the wider retail environment for targeting community segments clustered around particular store catchments. This technique could also offer opportunities for water companies to probe and reveal more local, bespoke customers' preferences, improving the overall level of satisfaction through their understanding local communities better.

We have used some of these techniques in the past and will consider some of these when seeking to get a deeper understanding of customers in our region. Not all are suitable for the water sector, or may primarily be of use in an operational, rather than price review context, but all are worth exploring.

In addition we think there is room to improve the way in which customer insight is triangulated across research exercises, and the way it is then utilised to drive change in companies business planning.

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

United Utilities supports the continued use of customer opinion to provide significant influence on the price review process.

Even areas where customer views can only have a limited impact on future plans, such as investment to meet statutory environmental improvement needs, is still of value. Companies have an important role to play in wider society, and understanding where companies are acting to fulfil these responsibilities, even if doing so is not fully aligned to today's customer preferences is important.

However; there is a limited number of elements of the price review process where we have previously deemed it unnecessary to solicit customer opinion.

One such area is health and safety. For example, we have never solicited customer opinion on reservoir safety or dam conditions. These topics are, and will remain, amongst some of the very highest priority. United Utilities has always believed it would be counterproductive to engage with customers on these topics, as our commitment in these areas will remain unchanged, regardless of any change in customer opinion or valuation.

We also recognise that customers desire to be consulted on engineering based detailed solutions is low. We have repeatedly heard that customers are eager to engage on 'outcome' based services and customer experiences, but are willing to allow 'experts' to engage with the detail of precisely what is the best way to achieve those outcomes.

### **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 are keen to continue to engage as the methodology and guidance for the next price review is published.