

For the attention of David Black, Interim Chief Executive Ofwat

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

SWW / Bournemouth Water CCG (WaterFutures Panel)

Dear David

These are my thoughts as the Chair of the SWW / Bournemouth Water PR19 CCG with help from Richard Lacey (who was a member of the WaterFutures Panel and Chaired the Bournemouth Water CVG) - reflecting on customer engagement at PR24 and beyond. As you will be aware a new group has been formed by SWW to oversee the WaterShare+ programme and I have been appointed as the Deputy Chair. The Chair of WaterShare+, Lord Matthew Taylor, has shared this response with the WaterShare+ Panel and they support its views.

I view true Customer Engagement as an essential part of the overall process and the importance of a diverse and independent challenge group is an essential element that gives confidence to the customer and regulators in the process. It is also essential that local customer engagement continues to form part of the overall process, without that localism local nuances will be lost. It is also important that other regulatory agencies are there to inform the local groups, however their influence should not be overarching in respect to the challenge offered by the panels.

Whilst developing national customer engagement on common concerns will be a good step forward, they should be in addition to rather than replacing local focus.

I hope you will find these responses helpful and are useful in informing the PR24 process as it is developed. If you would find a discussion or further comment helpful, please do not hesitate to contact me.

Sincerely

Eur Ing Nick Buckland OBE

Response

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

Whilst it is likely that the goals set out would be both strategic and sensible without more detail it is difficult to agree or disagree on their suitability. Throughout the PR19 process the SWW/Bournemouth Water CCG (WaterFutures) found the localised nature of the company's engagement to be especially effective and informative in understanding the customers viewpoint on a wide range of issues and it would be unfortunate to lose that granularity. So whilst there may well be value in national level research, it would be critical to ensure both that Company level customer research is used to inform the specifics of the company plan and to encourage innovation, and company level CCGs are involved in the assurance of this work.

Q2: Are there any other goals which you think we should have for customer engagement

at future price reviews?

What was clear during the PR19 customer engagement process and to a more limited extent during PR14 was that there were a wide variety of issues customers wanted to debate and that as subjects were switched around during the customer engagement process, so individual issues came to the fore. What is also clear is that whilst what was in the front of customers minds were often issues that impacted them directly, through focused group discussions and broader research the substantive issues were around locally critical matters - pollutions, bathing water quality, water pressure issues and leakage – on balance price was understood to be something that was an issue but down the list until specifically asked about. At a macro level climate change, the greening agenda (including green finance) and corporate ownership and thence financing are important, but not at the expense of the more local issues.

Therefore it is imperative that future customer engagement can address these two levels of customer concern – there is a critical role for company specific work, and this should be informing OFWATs determinations at a company level.

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 noted in the response to Q2 – there is value in national benchmarking, provided that local issues are also captured there is no reason that areas that are truly of common concern aren't addressed through customer engagement and research nationally. In defining the areas of common concern it will be important to ensure that they are actually issues that customers have concerns about rather than being issues Ofwat or other bodies think and believe customer should be concerned about, so prior to the common concern issues being defined a study is conducted to establish exactly what they are with customers. Common concerns could also set a base line for companies nationally, for example under PR19 Ofwat set a leakage reduction of 15% and most companies simply complied with that baseline, but others have chosen to offer greater reductions, local customer engagement can drive that type of performance over similar baseline expectations. Therefore companies must be encouraged to respond and adjust to the specific local hierarchy of issues and preferences – company level research and the validating (and encouraging) role of CCGs is critical to this. For example, SWW customers clearly saw resolving issues critical to businesses and customers in the company area as a priority over simple cost setting. It was also critical to the local innovation that led to WaterShare + and the offer of shares to customers.

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?

The research should first determine what the areas of common concern are through engagement with a substantive study conducted with the overall customer base, through a reputable research organisation to give credibility to both the process and the results. It is likely that these issues will bring into play the climate emergency, corporate ownership and finance, environmental concerns and relative affordability, willingness to pay and pricing, but by conducting the research Ofwat would have confidence in the nature of these common concerns. There is a danger that by engaging with other regulators or similar they could introduce a bias in the process, it would be essential that the areas of common concern reflect customer concerns and not those of regulators etc, they have had and will have a different route into the PR24 process.

Once the areas of common concern are defined the broader nationwide research could be conducted again using a respected research organisation. In terms of when this is conducted – at the start of the PR process and just before the final Business Plans are completed, to allow the companies and Ofwat to ensure the BPs reflect the common concerns as well as local concerns.

Accounting for the differences between England and Wales should be addressed by working with the devolved government.

However, this benchmarking national research is not a substitute for company specific research – the two are complimentary.

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?

Clearly Ofwat should retain control of areas of research that address issues of national and common concern, but having an independent challenge panel nationally on these issues would be valuable.

However, the critical thinking is around how this interplays with the individual companies own local customer engagement regarding local issues, and there must be similar local challenge to this work to ensure it is fit for purpose through use of a CCG or similar process that reassures both Ofwat and customers on its credibility.

Ofwat would need to give clear guidance to both the companies and the challenge groups on how they expect local customer engagement is conducted and what degree of challenge is expected to enable them to have confidence in the research findings, but the local research must reflect local issues. The most important element is to continue to make clear to companies that Ofwat expects them to codevelop their plan with their customers, and the quality of this engagement and resulting customer support will be critical to approval of the business plan. It would be a mistake to be too prescriptive – companies should be challenged to be innovative and rewarded for doing this work in sector leading ways. Throughout PR19 it was important that the results of customer engagement were subject to triangulation to ensure it was both robust and properly reflected customer views – and companies saw this work as critical to outcomes and company priorities being supported by Ofwat.

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?

Understanding relative performance and how different companies address the issues of common concern and those of local interest would be useful for local challenge groups. The benefit of having what is seen as a local independent voice through a local challenge group has been and is seen as important for customer confidence in the process, and for innovation. The addition of Ofwat national benchmarking work to sense check would be valuable – it would not be a sensible replacement.

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?

In the case of SWW/Bournemouth Water the CCG had great confidence in the research techniques the company used, but that confidence was built up over time by deep interrogation by the CCG of both the company and their research teams, including in depth analysis of the triangulation and other measures, it was also helped by the diversity of the CCG in its make up.

In particular Willingness to Pay and Affordability are relative and highly reflective of local demographics and the local economy and are likely to be subject areas that appear to be of common concern but are in reality more local in nature.

It was important that this local engagement and research was seen as critical to the outcome – it encouraged innovation and best practice, which SWW demonstrably showed in both PR14 and PR19. This competitive driver would be equally important in the next Price review.

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?

Given the nature of the water sector and its regulatory environment and the nature of the marketplace for private consumers, other regulated sector approaches designed for their particular needs are unlikely to be a robust model. However, reviewing best practice and encouraging cross fertilisation would be welcome – and CCGs could be encouraged to review best practice as well as at an Ofwat level.

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

Given the diversity of the sector, in demographics, geography and general economic data it is unlikely that other than broad areas of common concern there is a single hierarchy of customer preferences that can be analysed nationally and 'rolled out' uniformly. But local level research needs to be extremely well conducted.

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?

Having that local connection between the customer and the company through having an independent diverse challenge panel is critical to continue to give the consumer confidence in the overall process. These local panels could assist in the development of the common concerns and could continue to give legitimacy to the overall PR24 process – and ensure companies respond to local priorities and encouraged to innovate.