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Summary

Water UK is the representative body and policy organisation for water and wastewater service providers across the UK; individual companies may have different perspectives.

We welcome the opportunity to respond to Ofwat's discussion paper on *Reflecting customer preferences in future price reviews*¹, and also appreciate Ofwat's early engagement on this key topic for PR24. This is timely, as customer engagement is naturally one of the early activities in price reviews, so the early opportunity to establish a shared understanding across the sector on how customer preferences are to be reflected at PR24 is welcome.

Our starting point is that as a point of principle the legitimacy of the sector is enhanced by customer and stakeholder views being reflected in decisions made as part of the regulatory process to the greatest extent possible – including reflecting regional preferences where these can be robustly demonstrated – and that if there are to be circumstances when well-evidenced customer and stakeholder views do not flow through to decisions, there should be a robust and explicit rationale for this.

We are therefore pleased to see that the first of Ofwat's goals for how customer evidence might be used to inform future price reviews 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 can understand the concerns which have resulted in the proposal for collaborative research, and we recognise that in some instances more consistency may be beneficial and improve confidence in the results of research, including different local or regional preferences.

There are different ways in which this concern could be addressed, and there is a range of views in the industry on best approach.

On balance, however, we suggest that before considering taking forward centralised research (which risks undermining the overarching principle of company responsibility) the potential to improve consistency through greater standardisation of methodologies across companies should be exhausted. We, and companies, would be pleased to work with Ofwat and other stakeholders to achieve this aim.

¹ <https://www.ofwat.gov.uk/consultation/pr24-and-beyond-reflecting-customer-preferences-in-future-price-reviews/>

If Ofwat does ultimately decide to proceed with a centralised approach, we suggest that to mitigate the undermining of company responsibility this would inevitably involve, as much as possible of engagement on developing plans should continue to sit with individual companies, and any centralised approach should be kept to a minimum and focused on the regulatory framework itself, for example definitions of common performance commitments and perhaps boundaries for penalties and rewards.

Whatever the ultimate scope is, we agree that a collaborative approach to any centralised research would be essential, and we would be willing to play our part in this. In doing so, we would though wish to be clear that we would see Water UK's role as being one of facilitation and co-ordination rather than acting as a substitute or proxy for involving individual companies.

Given the importance of individual companies, and their Boards, owning their Business Plans, and the importance of there being a clear line of sight from customer views to those plans, it will be crucial for all companies have visibility of, and the ability to actively and directly contribute to, all aspects of the design of any centralised research.

This will be essential to build confidence across the industry in the approach that is ultimately taken. If companies lacked confidence in the results of the research because they were insufficiently able to participate in assuring its appropriateness and design, then it may be difficult for companies and their Boards to take ownership of the results and use them as the foundations of Business Plan proposals.

We therefore suggest that the early convening of cross-sector steering groups would be helpful, to seek to develop an approach that would have broad support across the industry and its stakeholders, and we look forward to working with Ofwat and other stakeholders to take this forward. Given the different policy contexts between England and Wales, we suggest that the best starting point would be to have separate steering groups for England and Wales, with close collaboration between the two.

It will be particularly important to establish a forward programme for any centralised research to be carried out, so that individual companies can seek to manage interactions with their local research programmes.

Below we provide responses, where appropriate, to the specific questions raised in the consultation.

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

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

We support the overall goals for how customer evidence might be used to inform future price reviews set out in the consultation, and provide some comments below on the individual goals.

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.

As there may be a degree of tension between this overarching goal and some of other goals (for example with fostering collaboration), or between the other five goals, it would be helpful to be clear on the

relative priorities of the goals – and on the criteria that should be used to assess whether the goals are being met.

- Enable companies to take responsibility for their relationships with their customers

We agree that the approach to future price reviews should be underpinned by the overarching principle that companies are responsible for managing their relationships with their customers and responding to their needs – and that the regulatory framework should play an enabling and facilitating role, rather than inadvertently coming between companies and their customers.

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

We agree that it is important to recognise that customer preferences may vary across regions for a variety of reasons, and the approach to customer engagement at price reviews should not therefore be a ‘one size fits all’ approach.

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

There can clearly be benefits from working collaboratively, sharing views and perspectives to develop a shared understanding. As well as the risk of conflicting with the overarching objective of maintaining company responsibility, we are however mindful that at PR19, customer engagement was one of the assessment areas for the competitive Initial Assessment of Business Plans process. If such a process is used in future price reviews, clarity will be needed on the desired boundaries between competition and collaboration.

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

We agree that transparency should play a key role in engagement at future price reviews, and we welcome the recognition that this has two aspects – for companies to be transparent about their engagement with customers and how the resultant evidence has been used to inform their plans, and for Ofwat to be transparent about how, and why, evidence from engagement has been taken into account (or not) in decision making.

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

We agree that a proportional approach is appropriate, and that it should not be necessary to carry out customer research on areas with limited relevance for customers or limited prospect of obtaining meaningful results that could be used in business planning; we note that CCW’s PR19 review showed that there are some topics that may not be amenable to customer engagement. We therefore agree that the objective should be high-quality (as opposed to high-quantity) engagement; this could helpfully be facilitated by having a shared understanding of what constitutes high-quality engagement for the purposes of regulatory decision making.

- Broaden value so that companies understand people’s views as citizens and their views as customers

As the role of water companies is wider than just providing services directly to customers, we agree that engagement needs to also elicit views on the broader public value companies can provide to citizens.

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 can understand the concerns which have resulted in the proposal for collaborative research, and we recognise that in some instances more consistency may be beneficial and improve confidence in the results of research, including different local or regional preferences.

There are different ways in which this concern could be addressed, and there is a range of views in the industry on best approach.

On balance, however, we suggest that before considering taking forward centralised research (which risks undermining the overarching principle of company responsibility) the potential to improve consistency through greater standardisation of methodologies across companies should be exhausted. We, and companies, would be pleased to work with Ofwat and other stakeholders to achieve this aim.

If Ofwat does ultimately decide to proceed with a centralised approach, we suggest that to mitigate the undermining of company responsibility this would inevitably involve, as much as possible of engagement on developing plans should continue to sit with individual companies and any centralised approach should be kept to a minimum and focused on the regulatory framework itself, for example definitions of common performance commitments and perhaps boundaries for penalties and rewards.

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?**

As noted above, we suggest that Ofwat should be cautious about taking a centralised 'nationwide' approach to research, as this would risk undermining with the overarching principle of company responsibility.

If Ofwat does ultimately decide to proceed with a centralised approach, we suggest that to mitigate the undermining of company responsibility this would inevitably involve, as much as possible of engagement on developing plans should continue to sit with individual companies.

Any centralised approach should be kept to a minimum and focused on the regulatory framework itself, for example definitions of common performance commitments and perhaps boundaries for penalties and rewards.

Whatever the ultimate scope is, we agree that a collaborative approach to any centralised research would be essential, and we would be willing to play our part in this.

In doing so, we would though wish to be clear that we would see Water UK's role as being one of facilitation and co-ordination rather than acting as a substitute or proxy for involving individual companies.

Given the importance of individual companies, and their Boards, owning their Business Plans, and the importance of there being a clear line of sight from customer views to those plans, it will be crucial for all companies have visibility of, and the ability to actively and directly contribute to, all aspects of the design of any centralised research. This should include not just the overall methodology, but also all research materials including project scope, discussion guides, questionnaires and other contextual and stimulus material.

This will be essential to build confidence across the industry in the approach that is ultimately taken. If companies lacked confidence in the results of the research because they were insufficiently able to participate in assuring its appropriateness and design, then it may be difficult for companies and their Boards to take ownership of the results and use them as the foundations of Business Plan proposals.

It would also be important for any collaborative research to be carried out in a way that made it possible to robustly identify local or regional preferences. In particular, sample sizes would need to be sufficiently large to give meaningful and statistically robust results for each individual company, rather than determined by a budget constraint.

We also recognise that both Ofwat and CCW would need to be confident in the methodology, and would bring valuable perspectives to a collaborative approach. A practical way forward could be to have steering groups (separately for England and Wales – see below) including Ofwat, CCW, Water UK and a number of industry representatives, combined with regular engagement with the whole industry which Water UK could facilitate.

While it would clearly be desirable for decisions on the methodology to be used to be made by consensus, where this is not possible, clarity would be needed on the basis on which decisions would be made, and by whom; the nature of the decision-making approach chosen could have an impact on the degree of ownership felt by different parties.

In relation to differences between England and Wales, the consultation is right to note that there are differences in the legislative frameworks, and policy priorities set out in the respective SPSs, for the two nations, that will need to be taken into account in the approach to customer engagement. Given the different policy contexts between England and Wales, we suggest that the best starting point would be to have separate steering groups for England and Wales, with close collaboration between the two.

Which aspects of business plans should fall within the scope of any centralised research, and when this research should be undertaken, are obviously key questions to resolve. It will be particularly important to establish a forward programme for any centralised research to be carried out, so that individual companies can seek to manage interactions with their local research programmes.

We anticipate that there may be a range of views on these points, and suggest that the early convening of cross-sector steering groups would be helpful, to seek to develop an approach that would have broad support across the industry and its stakeholders, and we look forward to working with Ofwat and other stakeholders to take this forward.

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?

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?

In considering these questions, we start from the principle the legitimacy of the sector is enhanced by customer views being reflected in outcomes from the regulatory process to the greatest extent possible.

It would seem unlikely that this objective would be achieved by Ofwat fully withdrawing from providing guidance on how companies manage their engagement during price reviews, as Ofwat will inevitably have views on what constitutes sufficiently high-quality engagement to be able to incorporate the results into regulatory decisions – as the consultation notes, companies could put effort into research which Ofwat feel they are unable to rely upon due to quality or reliability concerns. To address this risk, guidance would need to be provided early in the regulatory process, rather than risk a mismatch of expectations being revealed at a later stage.

As we note above, greater consistency could be achieved through greater standardisation of methodologies, rather than a centralised approach to customer research which would risk undermining company responsibility; this would imply a greater, rather than lesser, role for guidance from Ofwat.

If Ofwat decided to take forward a centralised approach, this may to some extent reduce the scope of local engagement – although as above, we suggest that as much as possible of engagement on developing plans should continue to sit with individual companies. In any event, it is inevitable that substantial local engagement will still be required, as there will be many issues that it simply would not be possible to cover, or cover in sufficient detail, in nationwide research.

As the consultation notes, this raises the prospect that differences in findings might materialise between local and national research, and decisions would need to be made on how to prioritise and weight the different sources of evidence where detailed local research indicates different preferences from the findings of the standardised national research for the same area.

While it would be important not to stifle innovation by excessive prescription, early guidance on what Ofwat regards as high-quality engagement, including triangulating between different sources of evidence and achieving a clear line of sight from engagement to plans, would enhance the prospects of customer views, and local customer preferences, being reflected.

The consultation also refers to the role of Customer Challenge Groups (CCGs), and appears to be somewhat sceptical of their benefits. For many companies, the introduction of CCGs has been one of the key positive features of the last two price reviews, bringing a sharper focus on the voice of the customer and insights which have resulted in more customer-focussed plans.

While individual companies would wish to retain some flexibility regarding the detailed future role of CCGs, some companies would see benefits in CCGs evolving to play a greater role, perhaps along the lines of negotiated settlements, which we note will be considered in the forthcoming PR24 methodology consultation.

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?

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?

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

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 agree that it is appropriate to review the full range of approaches which can be used to elicit customer views and assess the appropriateness of these approaches to the water sector. Individual companies will provide more detail on these points; we would reiterate that a proportional approach is appropriate, with the objective being high-quality (as opposed to high-quantity) engagement, and that this could helpfully be facilitated by having a shared, and early, understanding of what constitutes high-quality engagement for the purposes of regulatory decision making.