

Wessex Water Customer Challenge Group

29 January 2021

For the attention of Rachel Fletcher, Chief Executive Ofwat

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

Response of the Wessex Water Customer Challenge Group

Dear Rachel

As Chair of the independent Wessex Water Challenge Group, I am pleased to provide the Group's response to your discussion paper on reflecting customer views at PR24 and beyond.

The Group's membership is diverse and includes representatives from CCW and EA. These organisations are providing their own responses to you. Our response includes some personal views of our CCW and EA members.

The Group broadly supports Ofwat's proposed goals for customer engagement at future price reviews and the principle to use nationwide research for common areas of water company performance.

We have provided our views on specific aspects of Ofwat's discussion points and our detailed responses to your questions are given the Appendix to this letter.

I hope you will find our responses helpful and am happy to discuss any of them with you.

Yours sincerely

Dan Rogerson

Chair Wessex Water Customer Challenge Group

Appendix

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

The Group considers the proposed goals to be strategic and sensible. It would welcome clarity as to how the outline approach to customer engagement will meet these goals.

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

The Group would like to see goals that include helping customers understand the range and scope of services that they might expect from their company, albeit at the most cost-effective price.

For example, with the majority of local authorities declaring climate and ecological emergencies, and with so many international companies taking out prime TV advertising about what they are doing to protect the planet, how and where do water companies ask their customers whether they want their water company to play their part in protecting the environment and to what extent? The water companies are monopolies, but competitive industries increasingly realise that enhanced environmental performance is key to market share.

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?

The Group considers the principle would be helpful. However, its scope should aspire to the highest common denominator not the lowest. The context cannot just be about price and must include scope and quality of service

We question how checking would be undertaken on whether there are issues of common concern across the nation and what they may be before listing them in further research. Testing these in substantive research may prompt customers to adopt them as important.

Additionally, customer preferences must be honed to what the customer actually needs and understands, and it may help if Ofwat undertook some work to identify this.

We also see potential value in national data for estimating future demographic shifts (for example, if there is going to be a shift of jobs and labour from the South East to the north of England, the potential impact on customer profiles from the influx of Thames Water customers to new regions could be estimated).

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 Group considers that the following areas of performance would be suitable to be included in the nationwide research:

- Customer service
- Environmental performance
- Leakage
- Affordability

The organisations which should be involved in steering the research should be Ofwat, EA/NRW, Natural England, DWI, CCW, WaterUK, Citizens Advice and other utility consumer groups.

The national research should be conducted as soon as possible, as this would provide baseline information to help companies shape their research. The sooner it is undertaken the more robust PR24 policy will be and provide companies with sufficient time to meet the requirements.

If companies are being encouraged to increasingly use catchment-based solutions rather than hard engineered solutions in the future, then inclusion of the Catchment Based Approach (CaBA) as an organisation to help steer the research would help. This would be particularly relevant to environmental performance and outcomes. It would also balance the more price-focussed approaches.

We have no view on the research accounting for differences between England and Wales.

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?

Ofwat's guidance must be centrally driven, where possible, in order to provide a level playing field for all water consumers. However, it must also be recognised that there will be customer issues bespoke to certain water companies. Ofwat should not discount the findings from company research.

It is important that Ofwat provides guidance that clearly sets out its expectations of companies in undertaking engagement. This will help ensure that Ofwat has confidence in the outcomes of research and how these have been used to inform development of companies' Business Plans and give companies greater reassurance that their research will not be discounted by Ofwat in its assessment of their plans.

Opportunities should be sought for wider community-led programmes such as “upstream thinking”, green issues, understanding the value of water etc.

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

The Group would find it helpful to be pointed towards examples of engagement which Ofwat considers to be good, innovative and significant.

Triangulation of engagement results was and remains an important issue. Companies were expected to come up with their own methods at PR19. The Group would benefit from having insight from Ofwat on its expectations for triangulation.

More advice on triangulation is needed, if Ofwat have a view as to what is required. While Ofwat outlined the importance of triangulation in PR19 submissions, there was little guidance for CCGs or companies as to what was to be considered good practice.

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 Group provided an independent voice at PR19 and can do so again in future, with the time to interrogate and challenge the whole programme across the price review process. This is grounded in an understanding of the current performance of the company.

With company-specific CCGs, it can sometimes be difficult to judge issues due to a lack of comparative data about other companies. Some elements of common customer research may help this, but issues will still remain.

Ofwat may wish to consider commissioning a study into how other utility Regulatory Authorities conduct work on consumer assurance – not only in the UK, but also globally.

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 note the large variability in Willingness to Pay (WtP) scores across water companies' research. We suspect this reflects a weakness at the heart of the method, perhaps in that the WtP approach reflects how economists view the world much better than how the public view it, hence the unreliability of measurements obtained this way.

We suggest an expert review of the WtP methodology led by Ofwat, or at least Ofwat guidelines about how and where it should be employed.

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 no response to this question.

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

The scope to solicit informed opinions from customers is greatest for broad areas of policy and deciding between “being the best company” and keeping costs down. There is less scope in testing specific performance commitments and delivery incentives.

Getting the consumer interested in their water company is an area that needs to be addressed. From this, if successful, greater informed debate on what the consumer wants out of the industry could be achieved.

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?

The Group considers that, developing the CCG resource, by supporting them in their role through training and clear guidance, would have significant benefits in the independent assurance of companies’ customer engagement approaches and results.

We also believe that, through Ofwat working more closely with the other regulators in shaping customer engagement, potential contradictory drivers could be avoided.