

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

### **Wessex Water response**

Thank you for the opportunity to respond to this discussion paper.

Detailed responses to the questions are included in Appendix 1.

Our key points can be summarised as follows:

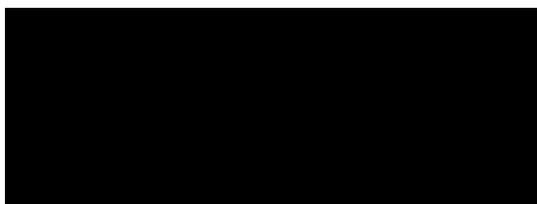
- Changes to the model for customer engagement for PR24 and the assurance associated with it should be considered in the context of wider reform to the business planning framework. We are strong advocates of moving to a small number of true and ambitious outcomes set by government/Ofwat, measured and incentivised for the long-term benefit of society (current and future customers and stakeholders, and the environment). If we measure and properly incentivise the things that really matter, there will only need to be 6-10 common performance commitments (PCs) and no bespoke PCs. Lower level inputs and outputs would still be monitored but companies would be able to take the most efficient approach to delivering the agreed small number of outcomes bearing in mind their specific operating environment, their current performance, and their approach to risk management.
- We broadly agree with the six goals proposed for customer engagement, but Ofwat must be clear how companies will be assessed against achievement of these goals.
- We agree that in areas of common concern to all customers, evidence of customers' preferences should be generated in a consistent manner such that results are comparable, but we need to be sure to get the list of common concerns right. We expect this to be a significantly smaller number of areas than, for example, the number of PCs companies currently have. This is particularly relevant if we move to a smaller group of outcomes and relevant PCs.
- Although we strongly believe that water companies should own the engagement with their customers and stakeholders, we would support collaborative nationwide research for common aspects of business plans. By this we mean centrally commissioned research projects with robust sample sizes in each water company area. This would be best suited to large quantitative studies such as willingness to pay or acceptability testing of business plans.
- This should be combined with effective local engagement to ensure that any local priorities or views are accurately identified and reflected and that companies retain control of the development of their business plans.
- Water companies must be able to influence any nationwide research projects and the overall engagement programme. A steering group should include Ofwat and CCW and water companies could be represented by a small

number of nominated companies and/or Water UK but all water companies must ultimately have the opportunity and time to comment/input into each tender, research scope and all associated research materials.

- It is vital that the timing and format of any nationwide research is set out up front so any local water company research can be successfully aligned.
- We support some degree of prescriptive guidance or set of minimum expectations or standards for local research projects as well as triangulation of research findings and demonstrating a clear line of sight from customer engagement to a finished business plan. Companies can choose to go further than the minimum through innovation if they wish.
- We believe local CCGs have a valuable and important role to play in business planning. A water company specific CCG is best placed to oversee local engagement and interpret water company variances in nationwide research programmes. They would benefit from more prescriptive guidance to ensure they are able to focus on areas where they can add most value. More engagement with local CCGs and more collaborative working between CCGs could be useful in terms of sharing insight and approach. That said, if we move to setting industry standard societal outcomes and performance commitments, use of a nationwide CCG may be appropriate in some areas.
- There are advancements in research techniques that should be explored and techniques that were introduced in only a light touch way at PR19 that could be utilised further. This could include simpler willingness to pay survey techniques, longitudinal qualitative research, ethnography and more involved co-creation. Companies also need to get better at using data they gather day to day to reveal customers' preferences.
- We remain strong advocates for a negotiated settlement approach for PR24. We have shared our thoughts with Ofwat and proposed a collaborative project be set up to develop a negotiated settlement model that could work for all parties and meet the six goals in this discussion paper. We are still keen to pursue this.

We hope you find these comments helpful.

Best wishes



Sue Lindsay

Director Customer Policy & Engagement

## Appendix

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

Broadly speaking we agree with the six proposed goals. It is unclear how we will be assessed against the achievement of these goals for PR24 and whether any of the goals are to be given more weight than others.

This information on assessment must be provided alongside the goals so that companies are very clear from the outset what is expected.

We welcome the strong focus on companies creating public value and widening engagement to consider and understand peoples' views as both citizens within their wider communities and customers in receipt of a water and/or sewerage service both now and for future generations.

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

No.

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?

Yes, we do agree with this principle, but we need to be sure to get the list of common concerns right. There are a lot of things that we currently measure that are not common such as ambition on leakage. Companies' and customers' views on leakage vary greatly across water companies, much of which is driven by the water resource situation prevailing in that company's area.

When answering this question, it is important to look at the wider picture for PR24 and how customer engagement should align to changes made elsewhere in the methodology.

We are very strong advocates for a change to the way we set outcomes, performance commitments, and incentives. We would like to see the industry move to a small number of true and ambitious outcomes set by government/Ofwat, measured and incentivised for the long-term benefit of society. A list of outcomes that society (current and future consumers/citizens and stakeholders) might want could be:

- Safe, reliable water supply
- Sewage taken away safely

- Improved environment
- Great customer service
- Affordable bills

If we measured and properly incentivised the things that really mattered, then we could reduce the number of performance commitments to 6-10. These might include CRI, a new supply interruptions metric, sewer flooding, net zero, distribution input, C-MeX and an affordability measure.

There would be no need for companies to have their own bespoke performance commitments. Lower level inputs and outputs would still need to be monitored but by not explicitly incentivising them, companies would be able to take the most efficient approach to delivering the agreed small number of outcomes.

Consider water abstracted from the environment (the outcome valued by society), which is measured and incentivised in the main through per capita consumption (PCC) and leakage reduction during PR19. The COVID-19 epidemic has seen significant increases in PCC, but this was offset by a reduction in non-household consumption and the outcome (the amount of water abstracted from the environment) barely changed. The industry appears to be failing, but the environmental impact was minimal.

If we aim to move to a smaller group of outcomes and relevant PCs, then generating evidence of customers' preferences in a consistent manner will be sensible using the likes of nationwide research.

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?

Water companies should be, and are, close to their customers, communities and stakeholders, and own the engagement with them both day-to-day and for business planning. We believe we have an excellent track record in this area, developing business plans that have these at their heart.

It is disappointing there are so many concerns about the quality of customer engagement for PR19 and that full ownership may be moved away from companies.

That said, we would support collaborative nationwide research for common aspects, particularly if we move to a different approach to setting outcomes and performance commitments as described above. Nationwide research would remove concerns about methodologically driven differences in research findings, although we are

aware that solutions have been developed by some research agencies to overcome these, and therefore identify genuine local variation in findings.

We agree that nationwide research should be combined with effective local engagement to ensure that any local priorities or views are accurately identified and reflected and that companies retain control of developing their business plans. We would not need to be incentivised to undertake local engagement.

Co-creation at a local level is needed to refine a company's public purpose. Bespoke local engagement is also required to understand how customers want their water company to achieve the agreed outcomes in the longer term, explore and explain any differences in the findings from the nationwide research projects, engage on company specific issues to inform plans and potentially agree any bespoke performance commitments if they remain in the methodology. It would be in addition to the day to day engagement with customers on ongoing service improvement.

We would see the need for some degree of prescriptive guidance for local research which is discussed below.

We are assuming that nationwide research in this context means research commissioned centrally using one research agency and an agreed methodology that achieves an agreed sample size in each water company area. This approach has been used in the past, with some success, for large quantitative studies covering aspects such as willingness to pay and acceptability testing of business plans. It could also be used to agree or test the common societal water industry outcomes and associated performance commitments discussed above.

Care would need to be taken with any nationwide study as to how to accommodate the different issues/attributes to include for all water companies, and how the research will deal with different starting/base positions and desired end position.

Research agencies may find large scale nationwide qualitative research programmes more difficult to deliver due to capacity to run enough facilitated (and potentially deliberative) discussions in each water company area. It would be unacceptable to run, for example, four focus groups across England and Wales and use the results of those to inform all water companies' plans.

The alternative definition of nationwide research could be a centrally agreed methodology for an aspect of the business plan such as acceptability testing. Water companies would then be able to procure their own research provider to undertake the research using that agreed methodology. This is feasible but we believe will still mean research findings are open to challenge, would be more expensive to deliver and there would be timing differences making it more difficult for direct comparisons to be done at any one time.

It's vital that water companies, if they are owning the engagement with their customers, feel they have a voice and influence on any nationwide research projects and the overall engagement programme. A steering group should include Ofwat and CCW and water companies could be represented by a small number of nominated companies and/or Water UK. However, all water companies must have the opportunity to comment/input into each tender, research scope and all associated materials such as discussion guides, questionnaires, and stimulus material etc. The programme would need to be structured to allow sufficient time for this consultation with the wider industry.

Other interested engagement experts could sit on the steering group or it could pull in expertise from Ofwat's new customer insight group. Ultimately, all interested parties need to be happy with the scale and scope of the work including methodology being used so any results can be considered robust and reliable.

Sample sizes also need to be sufficient to give water companies confidence in the results at company level. In the past water companies have been given the opportunity to boost sample sizes in nationwide projects as samples were set at only around 200 customers per water company area. Not all water companies chose to boost which led to inconsistencies in accuracy of results. We believe initial sample sizes should be large enough without requiring boosts.

Our key concern with nationwide research, other than making sure it covers genuinely common areas, is the timing and being very clear up front when pieces of nationwide work will be done, what aspects it will cover and when results will be available. This is vital if water company local research can successfully align to it and water company resources are available to act on the outputs.

If companies are going to be asked to pool wider insight from a combination of sources including research, operational data and complaints data to help to structure and target the collaborative nationwide research, then this will put more pressure on the timing of the programme and companies will need to be clear up front what information is needed and by when.

Aside from ongoing engagement, key business plan research projects would normally start in Spring 2021. Companies at this stage would normally be talking to customers to understand their priorities for different timescales up to the next 25 years for their Strategic Direction Statements.

If the conclusions of this discussion paper are not expected until May, it is unlikely any nationwide collaborative projects would be underway until 2022 which will limit the number of projects that can be done in the business plan preparation time and truncate the time period for any complementary local research to be undertaken.

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?

Even if nationwide engagement is undertaken, there is still a key role for local water company research as discussed above. Considering the high-level goal to “enable companies to take responsibility for the relationship with their customers”, providing prescriptive guidance would seem counter intuitive. It could stifle innovation and the ability for companies to use new research methods.

However, given the concern about reliability and comparability of research findings, appropriate triangulation of research findings, particularly if overlaps occur with local and nationwide research, and demonstrating a clear line of sight from customer engagement to a finished business plan, we think it would be sensible for Ofwat to provide some form of guidance or clearly set out their minimum expectations or standards for companies in these areas. Companies could choose to go above and beyond this minimum through innovation if they wished.

This approach should ensure that any research carried out at a local level is considered robust and where findings have been used in triangulation, that they are deemed to be reliable with significant weight.

We believe CCGs have a valuable and important place in business planning, both in challenging delivery of an existing business plan and developing the next one, and they should be company specific. They would benefit from more prescriptive guidance on their role to make sure they are able to focus on areas where they can add the most value and how their performance will be assessed. More engagement with local CCGs and more collaborative working between CCGs could be useful in terms of sharing of insight and approach.

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

As stated in Q5 we think it would be helpful for Ofwat to produce guidance or set minimum expectations/standards for water companies on:

- Triangulation of research findings, including combining outputs from nationwide and local research
- Achieving a clear line of sight from customer engagement to business plans.

We are supportive of further guidance being provided for CCGs as set out above.

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?

We believe CCGs have a key role in business planning. A well organised and structured, local CCG will have detailed local knowledge of customers, citizens and the environment making them uniquely positioned to challenge water companies.

A company-specific CCG would also be best placed to oversee local engagement and interpret water company variances in nationwide research programmes.

That said, if we move to a new model for setting industry standard outcomes and performance commitments a nationwide CCG may be appropriate to assure some aspects.

Regional CCGs may struggle to find their niche as they will potentially become unwieldy to manage and may struggle to deal with 3-4 different companies and their individual approaches.

We accept that local CCGs rely on local individuals and organisations giving up their time and expertise, but we have always found this to work well. Independence is key so we would certainly support any additional steps that can be taken to prove or strengthen this moving forward.

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 customer engagement we have undertaken for previous price reviews, and in particular for PR19, was in our view (and supported by Ofwat's assessment of plans) appropriate. Our programme was the largest in scope and scale of any of the price reviews and we used a range of innovative techniques making sure every customer had the opportunity to have their say including the harder to reach.

Research methodologies change over time and engagement for PR24 should keep up with those changes. COVID-19 has forced research to move online both in terms of quantitative and qualitative studies with much success so it's likely we can remain on those channels in future as opposed to more expensive face to face engagement. That said vulnerable and harder to reach audiences may require alternative approaches. We are also aware of simpler willingness to pay studies being developed ready for PR24.

There are also areas of research that have advanced further and that companies only touched on last time. This includes longitudinal qualitative research and

ethnography which could be used in much more depth at local level. Co-creation should play a larger part. Citizens juries have been used elsewhere but are not a technique typically used by water companies.

Revealed preference techniques were used in PR19 but could be used to a much greater extent. Companies hold a lot of data such as customer feedback, complaint and contact data which they use for day to day continuous improvement in service. There will be more that can be done with this insight to reveal customers' preferences in the longer term. Learning how this is done in other sectors would be helpful along with appropriate tools to use.

We note Ofwat's intention to work with CCW and others to better understand the:

- a. Extent to which conventional research techniques can be reliably used in the water sector
- b. Topics where conventional research techniques are less likely to be effective, and
- c. Whether there are any other approaches which might substitute for or complement existing approaches

This work needs to be done urgently if engagement programmes are to get underway soon.

In terms of obtaining detailed information on customer preferences, we believe this is possible using the right techniques. We would not be in favour of taking account of customer preferences at more aggregate levels e.g. setting outcome delivery incentive rates for PCs based on customers' broad preferences as opposed to WTP for a specific service improvement.

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 are advocates of negotiated settlements and have presented our ideas to Ofwat. We proposed one way in which they could be used for PR24 but suggested a project be set up to collaboratively work up a model to feed into the PR24 methodology. Achieving Ofwat's six goals would form part of the success criteria. We are disappointed this has been discounted in this discussion paper.

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

We read the CCW research report with interest. The report highlighted several areas where customers may struggle to give an opinion particularly on complex technical matters.

We would just add caution that this shouldn't be confused with a failure to solicit opinions successfully because an inferior or inappropriate research technique has been chosen.

Willingness to pay studies are challenging and complex for consumers but new simplified surveys are being developed which should be considered before it is deemed to be an area where customers shouldn't have their say.

We have also successfully talked to customers about outperformance and under performance payments albeit a very technically complex area. This is best done in a qualitative environment.

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?

No.