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By email only to: [PR24@ofwat.gov.uk](mailto:PR24@ofwat.gov.uk)

29th January 2021

Dear Ofwat,

**PR24 and beyond: Reflecting customer preferences in future price reviews**

We welcome the opportunity to feed into this early engagement on an area which we consider vitally important in not just setting out future price reviews, but also in the everyday service experience delivery to customers and citizens across Yorkshire.

Our company ambition of 'Putting people at the heart of everything we do' was co-created with our customers, colleagues and stakeholders in Yorkshire. The six goals presented in the discussion paper show alignment to our strategy and generally reflect the insight we have gathered both from customers and stakeholders.

It is important to remember that customer engagement is undertaken to meet the needs of the customers and citizens we serve. Engagement must be meaningful and provide clear actionable results. We acknowledge that elements of future price review processes could be considered in the context of 'common concern', but we would expect to work with Ofwat and the industry to clearly identify what these areas of commonality are.

The introduction of triangulation at PR19 was a real innovation for the sector in deriving customer valuation, bringing together both qualitative and quantitative evidence. We would welcome the opportunity to develop an industry standard approach to triangulation to support future price reviews. We believe a national framework would provide far reaching benefits for all parties across the sector, leading to better transparency, proportionality and broader value.



We believe that companies should own the relationship it has with its customers, and that this should be ongoing, not just for a price review. We look forward to working with Ofwat and other stakeholders in shaping our collective approach to customer engagement

Should you have any queries regarding this response please do not hesitate to contact me by email [REDACTED]

Yours sincerely



Paul Chapman  
Head of Insight  
Yorkshire Water

## **Yorkshire Water response to PR24 and beyond: Reflecting customer preferences in future price reviews – a discussion paper**

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

We would seek further clarity from Ofwat as to who these goals have been designed for e.g. companies, Ofwat or the sector as a whole. It is currently difficult to assess their appropriateness if we don't know who is responsible for delivering them.

Nevertheless, our own company ambition of 'Putting people at the heart of everything we do' was co-created with our customers, colleagues and stakeholders in Yorkshire. The six goals presented in the discussion paper show alignment to our strategy and reflects the insight we have gathered both from customers and stakeholders. Indeed, our customer engagement throughout PR19 saw high customer support for areas such as transparency (97%).

We agree strongly that companies should take responsibility for their relationship with their customers, whilst recognising preferences so that price controls are tailored to the specific needs of customers and communities in the region. Understanding the priorities of our customers and communities is critical if we are to deliver a customer experience at a cost which is affordable. We understand the hyper local issues faced across our region e.g. addressing flood resilience in Hull through the Living with Water project is just one example of this, as well as our upcoming trial in Sheffield to develop an engagement framework which meets the specific needs of the community. We also welcome Ofwat's focus on citizens and we see this as a positive step forward in gaining much better insight into the value that wider society place on the services and benefits delivered to the Yorkshire region and beyond.

Whilst we support Ofwat's goals on fostering collaboration and transparency we would like to better understand how Ofwat intend to develop its own collaborative approach with the industry and outline how it intends to promote transparency. It was unclear at both PR14 and PR19 how Ofwat assessed customer engagement, as well as the level of



weighting it gave to it within its assessment framework. There are already some great examples of collaboration across the sector and we would welcome further activity in this area when identifying the common issues customers and companies must address in the future e.g. climate change, carbon etc.

With regards to the goal of increased proportionality, we agree that all customer engagement should be meaningful to both the customer and demonstrably actionable by the company. We take customer engagement very seriously at Yorkshire Water and the activity which supports a price review is also used to inform wider business strategy e.g. customer experience strategy, environmental strategy, development of our six capitals approach etc, rather than it being undertaken specifically for a price review. We welcome further guidance from Ofwat as to what it deems to be high quality engagement.

Understanding views as citizens, as well as views of customers is key to gaining a broader understanding of the value people place on the services provided across the region. Indeed, our citizen engagement during PR19 allowed us to develop better outcomes for the people of Yorkshire, as well as set out our company ambition. Our Lifestyles approach enabled us to gain a better understanding of our vulnerable citizens circumstances across our region, which led to much stronger and stretching performance commitments.

We look forward to collaborating with Ofwat on how these goals can be applied to future assessments.

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

If the goals are for Ofwat itself to guide how future price reviews should incorporate customer engagement, then we feel a number of significant areas are missing.

### *Innovation*

We are disappointed that Ofwat has not considered a specific goal for innovation across the industry. We pride ourselves on looking at new ways to broaden our understanding and identify the changing needs of our region. Our innovative and dynamic approach to



customer engagement is constantly evolving, demonstrated in recent years in our ability to respond to significant weather events such as the Beast from the East, and more recently our response to the Covid-19 pandemic. Our understanding of our customer needs and personal situations allowed swift decision making to ensure service was uninterrupted, and customers were being updated in line with their expectations despite significant changes within the business as to how we serviced customers.

#### *Long term resilience*

The current regulatory framework only sets investment for five years and is not fit for purpose for enabling companies to make longer term investment decisions to address the real issues of climate change and resilience. We would like Ofwat to set out how it will ensure customers views about the long-term direction and sustainability of the industry are balanced with the shorter-term five-year price review deliverables.

#### *Policy setting*

We would expect to see a goal aligned to how Ofwat policy decisions are guided and supported by clear evidence from customers and citizens, whether from companies' research, or Ofwat's own research. We would welcome a collaborative approach in setting out how citizens can help shape Ofwat policy, so we are able to better respond to it.

Finally, whilst not a goal in itself, we would like Ofwat to provide clear guidance on the weighting it intends to give to customer engagement during PR24.

### **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?**

It is important to remember that customer engagement is undertaken to meet the needs of the customers and citizens we serve. Engagement must be meaningful and provide clear actionable results. We believe our engagement activity delivered a PR19 business plan which reflected the needs of our customers and citizens both now and in the longer term. We acknowledge that elements of future price review processes could be considered in the context of 'common concern', but we would expect to work with Ofwat

and the industry to clearly identify what these areas of commonality are. After all, it is this engagement which provides our company Board with the confidence and assurance that our business plan genuinely reflects the needs of our region and the people who live there.

Whilst the principle of consistency might seem right at the high level, once the details and practicalities are properly considered, it is not quite so straightforward. Companies need to conduct valuation research to inform ongoing cost benefit analysis, so there needs to be careful consideration about how companies reconcile the information used to optimise investment programmes and set incentives that would be comparable at a national level. Valuation studies, such as stated preference and revealed preference, have been used in the industry for decades to inform the cost-benefit optimisation of investment planning. This is their primary purpose and what the studies are designed to do, they are not designed to set incentive rates, for example.

We would also seek assurances from Ofwat that if a form of commonality is adopted across the industry, the outputs from that activity should not be used as the single source for companies to base their business planning decisions. Additionally, this should not be at the expense of unearthing regional nuances in customer preferences.

#### **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?*

The principal of undertaking centralised research on common areas appears sensible on face value, however, we would have concerns about applying this across all common performance commitments as outlined in the Ofwat discussion paper.

- We believe companies should be responsible for upfront research. Preferences and priorities should be undertaken locally, not nationally. This is also a view shared by our customers who are in favour of maintaining a regional approach, with concerns that a national approach may cut out the potential to gather specific and meaningful data, at a more local level.
- We are not convinced that nationwide research would fully represent the specific needs of the five million citizens of Yorkshire, especially for our hard to reach and

vulnerable customers. We would be concerned that the scale of research undertaken at a national level would not allow for robust sub-group analysis, which company-level research provides.

- We are not of the opinion that a nationwide approach would provide cost efficiencies. If there was to be a collaborative nationwide survey to identify customer preferences, the inclusion of 'common service areas' only means that the attributes of a choice set would be limited to these service areas. In other words, customers are only making a choice on how their bill payment is distributed across these limited number of service areas. Additionally, the baseline level of service for the companies could be very different therefore marginal willingness to pay for these service areas will not be consistent. These differences are important and at risk of being lost when the study is at the national level. Some validation or triangulation with other sources, e.g. regional studies, PR19 customer preferences (which take into account a larger set of metrics) will be required to strengthen values and this can only be done at a regional level.

Where we would see merit in exploring opportunities for collaborative research at a national level would be:

- Performance commitments and outcome delivery incentives linked to gap sites, voids, abstraction incentive mechanism, mains repairs etc.
- We would support a collaborative approach to setting comparable incentives across companies.

We would also see merit in co-creating a common methodology or national framework for companies and regulators to follow as part of their wider engagement strategies, where we believe the economies of scale and efficiencies would be truly realised. We would be supportive of collaborating on the development of such a framework to support future price reviews.

We strongly believe a fully considered and structured approach to delivering the strategic challenges faced across the industry would be more effective and also provide opportunity to demonstrate the legitimacy and impact the sector has within the economy.

- To foster genuine efficiencies, streamlining the various regulatory processes by aligning them closer together should be considered e.g. bringing the WRMP, DWMP etc. within the timescales of price review
- How we as an industry address national government priorities. Undertaking engagement with citizens at this level would have significant benefits for the industry, and genuinely deliver public/citizen value e.g. net zero carbon, sustainability, microplastics, environmental legislation etc.

*Which organisations do you think should be involved in steering this research?*

For any engagement to be meaningful, it is essential to have all relevant parties involved and consulted. In the context of nationwide research, we would challenge the suggestion that one representative body would be able to fairly represent the views of all companies. As a minimum we would expect a selection of company representatives from both a regulatory and insight background.

Other interested parties may include Consumer Council for Water, Customer Challenge Groups, WaterUK and other specialist/external companies, such as the Market Research Society.

*When should this research be undertaken?*

In principal, research should be ongoing and continuous, it should not just be undertaken to support a price review, whether that be identifying customer preferences or how we address the macro challenges faced across the industry. An industry framework would provide companies with the key areas of focus, whilst allowing companies to continue engaging with customers within their own business as usual activity.

With regards to customer valuation activity specifically, this is required early in the business planning process. Similarly, customer preferences for performance commitments and incentives are required well before investment planning takes place. Valuation data needs to be delivered at least 18 months before final submission. The customer valuation process is a critical point on the price review process and any delay in its delivery puts significant time pressure on the investment planning process.



We ask Ofwat to consider the timing and frequency of any nationwide research to ensure it complements companies local level engagement and business planning activity through the publication of an agreed industry forward programme of research.

*How should this research account for differences between England and Wales?*

The research undertaken should account for the different policies across England and Wales. However, if differences exist between England and Wales, then we must also account for potential differences across the English regions.

**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?**

As a minimum, we would expect Ofwat to clearly articulate how customer evidence will be assessed and used as part of future price reviews. An industry 'best practice' framework would provide transparency as to what is expected from companies as a minimum, but also provide clarity on how Ofwat will use insights derived from company engagement in its assessment of business plans, something which we feel has been missing from previous price reviews.

An alternative approach to collaborative nationwide engagement would be a move towards more prescriptive guidance for companies to continue to undertake their own research for future price reviews. We believe such prescription of minimum or core research activity/coverage would give Ofwat more commonality for comparison purposes but allow companies to undertake its own research with its customers and citizens, whilst allowing companies flexibility to go beyond this or augment with innovative methodologies and approaches. This approach would encourage and support Ofwat's goal for fostering collaboration if the sector was to set and agree a 'best practice' industry framework to common areas of focus.

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

The introduction of triangulation at PR19 was a real innovation for the sector in deriving customer valuation. However, it was broadly left to companies to develop their own methodologies. To avoid comparability issues and the potential for Ofwat to assess company research as ‘poor quality’ in this area at PR24, we strongly recommend Ofwat work with the industry to develop an industry approach to triangulation to support future price reviews.

Further guidance on what Ofwat constitutes as high-quality engagement would also be welcomed. The creation of an industry framework or the publication of a clear set of ‘minimum standards’ would provide transparency as to how customer insight is weighted and considered within the overall assessment package at PR24, knowing this will also benefit companies in applying proportionality to the engagement 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?**

Customer Challenge Groups (CCG) have provided independent challenge and assurance to companies’ customer engagement activity for the past two price reviews. Whilst our experience of CCGs has been favourable, we are aware that other companies’ experience of CCGs has been less so. Indeed, the discussion paper questions the consistency (and to some extent quality) of CCGs across the regions. For the CCG structure to continue to provide meaningful, consistent challenge and effective assurance to industry regulators, we believe Ofwat should publish clear guidance on how it expects CCGs to operate and function.

We also ask Ofwat to consider an alternative approach which would involve a panel of representative regional elected bodies that is consistent with the National Infrastructure Strategy report. This approach would formalise relationships with local representatives and allow companies to better understand local needs, perhaps even providing a proxy for citizens views. Early and ongoing involvement throughout the price review process will

provide assurance to representatives that their priorities are being considered both locally and within national frameworks.

**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?**

It is good practice to select the most appropriate research technique which reflects the topic or theme being researched, and ultimately, how the insight derived from the research will be used. Rather than revisit particular approaches, we believe it would be more meaningful and in the interests of customers to look at how we develop more innovative ways to connect with customers and therefore reflect their views in our plans.

The introduction of triangulation at PR19 was a real innovation for the sector in deriving customer valuation, bringing together both qualitative and quantitative evidence. We would welcome the opportunity to develop an industry approach to triangulation to support future price reviews, incorporating further guidance on the inclusion of standard data sources e.g. C-Mex, big data, complaints, social media (sentiment analysis) etc. and the relative weighting to be applied to each data source dependent upon levels of representativeness and robustness.

For future price reviews to be successful, we believe Ofwat need to be clear on what it considers to be proportionate and appropriate for each aspect of the business planning process.

**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?**

With all good quality engagement, it is important that the activity undertaken is meaningful and relevant to those being engaged with. Stated preference and revealed preference studies, whilst recognised as standard ways of eliciting customer valuation, can sometimes be cognitively challenging for some respondents, despite providing more creative ways of presenting data.

Other service prioritisation methods exist in other sectors, and indeed we have tested and introduced them into our ongoing research programme. Techniques such as MaxDiff and SIMALTO present options in a much clearer and engaging way so respondents are able to understand the trade-offs being presented.

We found deliberative techniques such as citizens assemblies/juries, charrettes, town hall events and carousel focus groups are effective ways of gaining in-depth insight into specific topics or themes. This approach allows respondents to gain a good understanding of the issues and time to debate the solutions or options available before coming to a general consensus on the recommended approach. Indeed, some of these techniques have already been tested within our Living with Water project in Hull, and our upcoming Yorkshire Engagement trial in Sheffield.

Ethnographic techniques are also a useful way to produce detailed and comprehensive accounts of different social situations and interactions with companies. Collection of these actions and behaviours can be compared and contrasted with other revealed preference studies e.g. how customers respond to interruptions, or how behaviour changes through the interaction of a campaign or message.

We would also be interested in understanding the approaches which Ofwat undertake to inform its own policy choices to see if any learning can be passed on to the industry.



We note that Ofwat have excluded meaningful discussion on negotiated settlement in this paper, so we will wait with interest to understand further thoughts on this approach.

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

We strongly believe that customers and citizens should only be actively engaged on meaningful topics and themes which support a price review process. Such areas include bill levels, performance levels, communication options, regional investments, reinvestment options etc. We question whether customers could be meaningfully engaged on the methods and mechanisms that create the outcomes, for example gathering customer views on gaps sites and voids.

**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 believe that companies should own the relationship it has with its customers, and that this should be ongoing, not just for a price review. In the spirit of fostering collaboration, we would welcome regular engagement with Ofwat (both individually and at an industry level) with regards to customer engagement. We therefore offer Ofwat the opportunity to attend research groups in Yorkshire, and further extend the opportunity to use our research channels, for example our Online Community, to pose questions or have conversations with the citizens of Yorkshire.

We would ask Ofwat to represent the industry in working with other regulators to align the different regulatory processes so that customers and citizens participate in creation of business plans, WRMP and DWMP, for example, in a more co-ordinated manner.