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PR24 and beyond: Creating tomorrow, together

Appendix – Reflecting customers’ preferences

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1. Summary

At PR14 we introduced a new approach to customer engagement. This relied on companies directly engaging with their customers to ensure they understood their needs, and required customer challenge groups (CCGs) to provide us with assurance of this engagement. We used a similar approach at PR19, with companies once again taking the lead in engaging with their customers and using CCGs to provide assurance.

We have reviewed our approach to customer engagement to take account of learning from the previous price reviews as well as the broader development of our PR24 framework. Given the long lead times in this area, we started our work ahead of [Creating tomorrow, together](#). In December 2020, we published a [discussion paper](#) which considered how customers' preferences might inform future price reviews.

We proposed goals for customer engagement and explored three ideas, namely:

- **Collaborative nationwide research** to inform common areas of business plans;
- Consideration of the need for **prescriptive guidance**; and
- The extent to which different techniques can **capture and reflect the preferences of customers, communities and stakeholders**.

[Responses](#) to our discussion paper supported our goals. The idea of collaborative nationwide research was mostly agreed with, particularly as a means of generating preferences consistently so that results are comparable. There were different views as to what aspects of business plans it should cover, who should be involved, and when it should happen. Some respondents suggested that a standardised approach to some research, delivered locally by each company, might deliver similar benefits to our proposal which envisaged the research being delivered on a nationwide basis.

Many companies favoured prescriptive guidance in some areas, with triangulation, assurance and what constitutes 'high-quality engagement' being the most mentioned topics. Others welcomed the identification of minimum standards, arguing that this would encourage greater innovation. Many respondents encouraged us to set out our thinking about the future role of CCGs. Some advocated for more prescription regarding the role of CCGs or for setting out a wider CCG role. Others welcomed the opportunity for companies to develop customer challenge and assurance solutions to match local priorities and ambitions.

Responses mentioned that a range of alternative customer research techniques should be investigated for future use in the water sector, particularly negotiated settlements, citizens' assemblies, and longitudinal research.

We have taken account of these responses, as well as submissions on these issues to our [Future Ideas Lab](#). In Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) we set out

the following suggestions for development of our approach to reflecting customer preferences:

- To work with the sector to explore the design and implementation of a **collaborative approach to research for the price review**, which will allow us to consider if and how customers' preferences differ within and across company boundaries and across the nations;
- That the findings of collaborative research **inform common aspects of companies' business plans** and our determinations, such as incentive rates for common performance commitments. We would expect the collaborative research and companies' own research to be complementary to each other;
- That the collaborative research will aim to provide a significant amount of the information needed on customer views to inform our determinations, **so we propose not to require each company to have a customer challenge group at PR24**. Instead, companies would put in place customer challenge and assurance solutions that meet their specific needs and ambition;
- To work with the sector to **develop and agree minimum standards** for high quality research, independent customer challenge, and independent assurance.

This accompanying document provides more detail on the responses to our earlier discussion paper and how these shaped our proposals. It first considers the responses to the goals we proposed for customer engagement, before looking at the responses to the three ideas set out in the December discussion document, namely: collaborative nationwide research to inform common areas of business plans; the need for prescriptive guidance, including on customer challenge and assurance; and the extent to which different techniques can capture and reflect the preferences of customers, communities and stakeholders.

2. Goals for customer engagement that informs the price review

2.1 Stakeholder responses to proposed customer engagement goals

In our December 2020 [discussion paper](#), we set out six goals for how customer evidence might be used to inform future price reviews. These were:

- **Enable companies** to take responsibility for their relationships with customers.
- **Recognise preferences** so that price controls are tailored to the specific needs of customers and communities.
- **Foster collaboration** so we learn from each other when working to understand what matters to customers.
- **Promote transparency** so it is clear to all parties how customer evidence is being used in decision-making.
- **Increase proportionality** so that the focus is on producing high-quality engagement instead of lots of it.
- **Broaden value** so that companies understand people’s views as citizens and their views as customers.

We received useful feedback on these goals in the responses to the discussion paper. Most respondents broadly agreed with the proposed goals, with some stating that they align with our [Time to act, together](#) strategy. A small number of responses commented that the goals do not go far enough, or are too high-level to be useful in practice. Some respondents thought we could consolidate some of the goals, suggested minor amendments to them, or asked for more clarity. Of all the goals mentioned by name, the most common was ‘Foster collaboration’. We particularly welcome this recognition of the importance of collaboration and the opportunities that it presents to improve outcomes for customers in PR24.

Some responses suggested that we should set out how we would measure progress against the delivery of the goals for customer engagement. We agree that we should aim to evaluate the impact of our work, including on customer engagement. This is set out in Chapter 2 of [PR24 and Beyond: Creating tomorrow, together](#).

2.2 Alignment with ambitions for PR24

In Chapter 2 of [PR24 and Beyond: Creating tomorrow, together](#), we set out high level themes that we think PR24 will need to address, as well as some ambitions that we expect to guide how we deliver against the themes. We are satisfied that the proposed goals for PR24

appropriately reflect the ambition that we set out for reflecting customers’ preferences in future price reviews in our earlier discussion paper.

Reflecting a clearer understanding of customers and communities encompasses the majority of our proposed goals for customer engagement. It embeds company ownership of the customer relationships (aligning with ‘**enable companies**’), through all of each company’s ongoing engagement, research, co-creation and collaboration with customers and use of company data. It reinforces the expectation that companies understand the diverse views and needs of its existing and future customer base (‘**recognise preferences**’).

Delivering greater environmental and social value encompasses our ‘**broaden value**’ goals for customer engagement. This set out the expectation that companies’ customer engagement needs to reflect that the ambition to develop plans that deliver for customers and communities as a whole.

Our earlier ‘**promote transparency**’ goal is also captured by our proposal to design the price review in a way that **provides more clarity**. And ‘**increase proportionality**’ is reflected in our ambition to **streamline the price review**. Our ‘**recognise preference**’ goal is also reflected in our proposals to **reflecting local and national diversity in the price review**.

We also consider that the proposals set out in this document and in Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) support or build on the principles of customer engagement developed for PR14 and PR19. As such, we consider that the principles remain valid.

2.3 The wider landscape of customer engagement

Many respondents to our [discussion paper](#) said that it would be helpful to be clearer about the relationship between customer research needed for the price review and the overall approach to customer engagement. Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) sets this out. It shows how the process of gathering customers’ views for the purposes of the price review sits within the much wider landscape of customer engagement which is about delivering the greatest benefits for current and future customers and the wider community.

Some respondents to our discussion paper argued that the focus of our paper was too narrow, that we had insufficiently acknowledged the importance of each company’s ongoing engagement with its customers, and that research is just one type of engagement activity. We agree – and we will ensure the price review, and our wider activities, recognise the importance of, and incentivise, companies’ ongoing engagement activities. This is also set out in Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#).

3. A collaborative approach to research for the price review

We plan to work with the sector to explore the design and implementation of a **collaborative approach to research for the price review**, which will allow us to consider if and how customers’ preferences differ within and across company boundaries and within and across the nations.

Our earlier discussion paper invited views on our idea that a collaborative nationwide research approach could be used to inform common areas of business plans.

We think that the collaborative research approach will help better reflect customers’ views during the price review process by:

- Increasing the overall quality and consistency of customer research on customer preferences and valuations;
- Providing us, companies and other stakeholders with greater certainty that we are reliably identifying similarities and real differences between customers and communities across company, regional and national boundaries; and
- Where appropriate, providing comparable results across all companies that can help the customer challenge process on an ongoing basis.

It may also increase the efficiency of company expenditure on customer research, particularly for smaller companies. These cost savings should be passed through to customers through cost sharing within PR24. This will also result in lower cost benchmarks for PR29.

Many respondents to the discussion paper were supportive of our proposal, as are contributions to the Future Ideas Lab.¹ Respondents said it would be helpful to have consistency across companies so that comparisons are valid, whilst recognising that preferences may legitimately differ across regions, and that consistency is important to ensure that all customers are treated fairly. One respondent does not believe that customers’ views about common areas differ very much between regions, and may be skewed by companies using different research methods to each other. Another said that common nationwide research could be useful by empowering Ofwat to compare preferences across companies and highlight the similarities and differences.

Some respondents to our discussion paper interpreted our proposal as meaning that national findings would result from a nationwide approach to research. To clarify, our aim is for the findings of research to be robust for each company and allow us to identify genuine variation

¹ See also United Utilities’ submission to our Future Ideas Lab, ‘Developing a National Approach to Customer Research’, May 2021, p. 3.

between the views of customers within and across company boundaries, and within and across the nations, where this is important.

Some respondents expressed concerns about the risk of losing opportunities to be innovative with their customer research and engagement approaches. We expect a collaborative approach to the development of methodologies and, subject to research quality standards being met, we expect opportunities to innovate will be pursued. The introduction of a collaborative approach to research will not diminish each company’s opportunity to innovate within the remainder of its customer engagement approach on an ongoing basis, including any activities designed for the price review.

Other respondents argued that the proposal may reduce opportunities for companies to engage directly with customers. As set out in Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) companies engage with their customers in a broad range of ways. We think that companies have substantial opportunity to build relationships with their customers through ongoing engagement with their customers. Blue Marble’s research for CCW commented on areas on which consumers want to be consulted for meaningful engagement: for business planning research this was ‘research evaluating proposed business plans at a high level (not in detail) – provided the plan is communicated in an accessible way’.² We therefore consider it unlikely that companies are substantially building relationships with customers through the type of research that we expect might form part of a nationwide research approach. However, we discuss later that this may be mitigated by taking a ‘standardised’ rather than ‘nationwide’ approach.

Therefore, as set out in Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) we plan to work with the sector to explore the design and implementation of a **collaborative approach to research for the price review**, which will allow us to consider if and how customers’ preferences differ within and across company boundaries and within and across the nations.

Below we discuss further views on the form that research could take including the distinction between nationwide and standardised research, whether different approaches are needed in England and in Wales, the scope of the research, as well as its governance, funding and timing.

3.1 ‘Nationwide’ or ‘standardised’

Some respondents to our discussion paper suggested that the ‘collaborative research’ could take the form of companies agreeing a common methodology for a research project that is applied locally by each company – we call this a ‘**standardised**’ approach. This contrasts

² CCW, [Engaging water customers for better consumer and business outcomes](#), May 2020.

with **‘nationwide’** research which would mean customers of all companies being included in one project.

Respondents commented that a standardised approach may have merit for some research projects because it would help deliver comparable findings, whilst addressing a concern that a nationwide research approach may reduce opportunities for companies to engage directly with customers.

We consider that a nationwide approach to some research could build on the benefits of a standardised approach: it may achieve even greater transparency of research findings and consistency of interpretation. But it may be less flexible than a standardised approach.

In this document we propose a **‘collaborative approach’** to research, which **could include both standardised and nationwide research projects**. We will continue to discuss with the industry where these approaches may be useful.

3.2 Different approaches in England and in Wales

A few responses to our discussion paper addressed how nationwide research should account for differences between Wales and England. Some argued that where the policies of the two countries place greater emphasis on different areas of service then this should be incorporated into the research. Some said we should consider the implications of the revised UK and Welsh strategic position statements, when published. Others stated that unless specific government guidance has an impact on the engagement needed, there should be no differences in the approaches.

Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) sets out that it may be appropriate to have different research in England and in Wales. Although many areas will be comparable, there may be some issues relating to the different priorities in the two nations which require a different focus. It also sets out that it may be appropriate to have different governance arrangements in the two nations.

We will work with water companies, CCW and other relevant stakeholders to determine whether there should be different approaches in Wales and England to reflect their unique situations.

3.3 Potential scope of a collaborative research

Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) sets out that we consider that the scope of a collaborative approach to customer research for the price review should include areas of company proposals and our determinations that are common to all

companies, where it is important for findings to be comparable across companies. We also want to focus on areas where customer research can provide meaningful results.

Some respondents proposed a wider scope, including topics like vulnerability, long-term resilience, environmental issues, public value or customer service. We consider that some of these areas could be included in our proposed approach and we will explore this further with companies as our collaborative approach develops. Some may be more appropriately covered by ourselves or CCW as part of our ongoing work outside of the price review.

Many respondents commented on the need for the nationwide research to take account of the local geography, history, socio-economic, attitudinal and cultural differences, or existing variations in the current or future levels of service and legitimate variations in the costs of delivery. We agree this is important. Indeed, one of the key aims of the collaborative research approach is to ensure we can meaningfully understand the similarities and differences between the experiences and views of the range of customers within and across company and national boundaries.

Water company respondents to our discussion paper commented on the need for guidance on how the findings from nationwide research should be weighted within the range of other insights about customer preferences, much of which may be from company-specific sources. CCW is planning to publish a report that is expected to set out best practice on triangulation of data from customer evidence, updating their prior guidance.³ We expect this to provide a review of examples of good practice in the water sector for PR19, and from other sectors.

Responses to our discussion paper commented that the collaborative approach should not replace each company’s local research and engagement. Some also suggested that it is important to be clear about the fit between a collaborative approach to customer research and company-specific, local engagement activities. As we set out in Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#), we expect companies’ local research to complement the collaborative research. We envisage using companies’ insights of customers’ views, gleaned from their ongoing engagement during the price review delivery period, to inform the collaborative approach to research. But we wish to avoid companies repeating research delivered within the proposed collaborative approach, or undertaking parallel and ‘competing’ research, not least to protect customers from the risk of duplicate costs. Were this to occur, it is probable that we would aim to give primacy to the findings of nationwide research and standardised research as we form our determinations.

3.4 Governance of the collaborative approach

As set out in Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#), we are currently working with water companies, CCW and Water UK to establish ongoing delivery and

³ [Defining and applying ‘triangulation’ in the water sector](#), ICF report for CCW, July 2017.

governance arrangements for the design and implementation of the collaborative customer research.

We think these arrangements could include a steering group, an advisory group and a delivery group. We need to establish membership for these groups. In addition to us, they could involve: CCW, water company representatives and Water UK, Defra/Welsh government, Environment Agency/Natural Resources Wales, DWI, Citizen’s Advice and other customer experts. The arrangements may be different in England and in Wales,

Respondents to our discussion paper have suggested some additional groups or organisations that could be included within governance arrangements (such as UKWIR, CCGs or representatives of the energy sector). Other stakeholders may offer relevant experience and knowledge, and so we expect to consider suggestions in addition to those mentioned above as we make progress on putting arrangements in place, through discussion with water companies, CCW and Water UK.

3.5 Funding the collaborative approach

Our proposal to include standardised research and nationwide research within the proposed collaborative approach raises the need for us to consider how each would be resourced.

In the main, the proposed collaborative research will encompass activity and costs that would otherwise be accommodated within each company’s plans and budgets during preparation of their PR24 business plans. As such, we expect that companies will:

- provide resources to work on the development and implementation of the standardised research, where this is agreed, as part of the proposed governance arrangements; and
- contribute towards the overall cost of nationwide research, in a proportionate manner, and provide related resources as part of agreed governance arrangements.

Within the nationwide research, we envisage that some companies may request, and provide additional funding for, enhanced sample sizes to meet their particular needs.

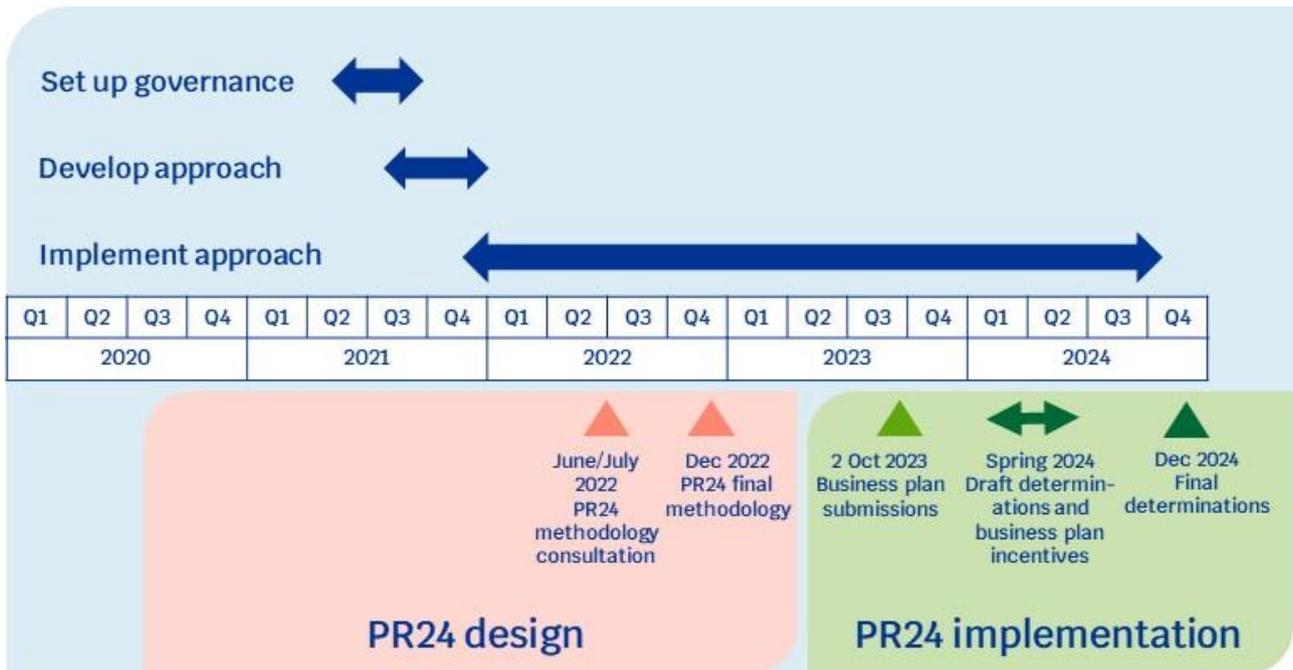
We expect that we and CCW will have significant roles in the management of the overall collaborative research approach as it is developed and that we will each contribute appropriate resources to help with this.

3.6 Phases and timing

We recognise the need to agree an approach to implementing collaborative research in good time to facilitate development of company submissions to the PR24 price review.

We have prepared the following illustration of the potential timing of phases of development and implementation of a collaborative research approach. We would like governance arrangements to be in place during the 3rd quarter of 2021 in order that the complex process of designing and procuring research project(s) can start in the 4th quarter. There are likely to be several phases of research running into the final stages of PR24 implementation to test the acceptability of our draft determinations.

Figure 3.1: Illustrative timeline for collaborative research



4. Minimum standards for research, challenge and assurance

We plan to work with CCW and the rest of the sector to develop and agree minimum standards for:

- **high quality research** (see section 4.1.);
- **independent customer challenge** to companies, with a focus on company delivery of commitments made to customers (see section 4.2.)
- **independent assurance** of i) the quality of companies’ local customer engagement for the price review and ii) use of the results of local engagement and the proposed nationwide research in price review submissions (see section 4.2.)

Our earlier discussion paper explored options for increasing or decreasing the level of our prescription for customer engagement, customer challenge and assurance of customer engagement. Respondents provided arguments for:

- more prescription and suggestions for areas that would benefit from more specific guidance or minimum standards;
- existing guidance being sufficient; and
- more freedom for companies to adopt challenge and assurance solutions that meet their specific needs.

We are proposing the development of minimum standards, rather than guidance, in order to acknowledge the increasing maturity of the sector’s approach to customer engagement overall and encourage innovation. We aim to give freedom to companies to implement approaches that fit with their own aspirations and circumstances. We consider it important that companies have the opportunity to exercise judgement in determining how to achieve or exceed minimum standards, and that guidance might inhibit creativity or encourage a ‘tick-box’ approach.

In this section we explain our proposals for the development of minimum standards in areas identified in responses to our discussion paper.

4.1 High quality research

Many respondents to our discussion paper welcomed development of guidance on what constitutes ‘high quality’ research and engagement. Some stakeholders commented that guidance should focus on describing minimum standards and outcomes, so that companies are encouraged to take full responsibility for how their specific goals are achieved and avoid the risk of limiting creativity and innovation. Respondents also mentioned the urgency of

guidance, if it is to be developed, due to the ongoing nature of engagement, with customer insight, engagement and participation activities already underway in preparation for PR24 price review submissions.

Annex 1 of this document includes our initial draft of minimum standards for high quality customer research. We intend to work with water companies, research experts and other sector stakeholders to develop and agree this guidance. We expect the agreed standards would apply to the standardised and nationwide research included within the collaborative approach, as well as any other research undertaken by individual companies.

4.2 Customer challenge and assurance of customer engagement

A wide variety of views on the PR19 CCG model and other ideas about customer challenge and assurance of customer engagement were expressed in response to our discussion paper, including:

- That we should clearly set out our expectations of the role of a CCG or the scope of assurance requirements;
- Some respondents welcoming the opportunity to design challenge and assurance solutions that meet our expectations of minimum standards of customer challenge and assurance of customer engagement approaches whilst allowing freedom for design and implementation of company-specific solutions;
- The suggestion that CCGs could evolve to play a greater role, perhaps facilitating negotiated settlements (see section 5.1 of this Appendix, and Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) for comments on negotiated settlements);
- Observation of the value of CCG subgroups that scrutinise focussed areas of company activities, e.g. customer engagement, environment, performance and delivery, water quality;
- Recommendation of academic peer review of econometric models and statistical methods used on customer data, and application of the findings;
- Reinforcing the need for a local, independent group to sense check the results, and the companies’ interpretation, of the nationwide research;
- Consideration of models of customer representation, challenge and assurance in other sectors and beyond the UK;
- Arguing that the appropriate assurance model for PR24 and beyond is intrinsically linked with the decision on the scope of any nationwide collaborative research.

Taking into account the views of respondents to our discussion paper, and our wider suggestions for the PR24 framework, we think that, for the reasons explained in [PR24 and Beyond: Creating tomorrow, together](#), while there should be minimum standards for independent customer challenge and assurance of customer engagement, there should be flexibility for companies to design their own approaches to meet their own specific needs and

ambitions. So we do not plan to mandate that each company should have a customer challenge group to deliver a customer challenge role and provide assurance to us on the quality and use of each company’s customer engagement. Companies may continue to use customer challenge groups where they find them helpful for focusing on, and working with, customers, as part of their day to day business outside the price review.

CCW’s forthcoming discussion paper sets out some potential alternative models of consumer representation within the water sector, for consideration ahead of the PR24 price review. We look forward to continuing our dialogue with CCW about customer representation in general, and in particular, CCW’s potential role in this area.

To help companies design appropriate approaches to customer challenge and assurance, and following suggestions made in response to our earlier discussion paper, we plan to work with CCW and the rest of the sector to develop and agree minimum standards for:

- **independent customer challenge** to companies, with a focus on company delivery of commitments made to customers; and
- **independent assurance** of
 - the quality of companies’ local customer engagement for the price review; and
 - the use of results of local engagement and the proposed nationwide research in price review submissions.

4.3 Triangulation

Many respondents to our discussion paper welcomed further development of existing guidance on how different sources of evidence should be brought together to inform company business plan proposals (a process commonly called ‘triangulation’). Respondents recognised that the use of multiple data sources and/or research methods to get a common perspective or understanding of customer preferences is a good means for cross-checking, validating, and providing confidence in research findings.

We are pleased to see water companies wanting to improve in this area. A robust, transparent, consistently applied and independently assured triangulation approach can increase confidence that company proposals and decisions are based on properly validated customer data, with conflicts or extremes investigated appropriately. Making sense of multiple customer data sources is important on a day to day basis, to inform company decisions about delivery during each price review period, as well as to shape price review business plans.

CCW is planning to publish a report that is expected to set out best practice on triangulation of data from customer evidence, updating their prior guidance.⁴ We expect this to provide a

⁴ [Defining and applying ‘triangulation’ in the water sector](#), ICF report for CCW, July 2017.

review of examples of good practice in the water sector for PR19, and from other sectors, for immediate adoption by water companies.

5. How to best capture the views of customers, communities and stakeholders

We are continuing to explore how to best capture the views of **customers, communities and stakeholders** in PR24 and future price reviews.

Our discussion paper explained that we planned to explore further the extent to which conventional research and engagement techniques can be reliably used in the water sector, the areas where these techniques are less likely to be effective, and whether there might be alternative or complementary techniques the sector can use.

Responses to our discussion paper highlighted a number of alternative ways of doing customer research and engagement, or related approaches, which could help companies to better capture the views of customers and communities. These included:

- Negotiated settlements (see section 5.1 below and Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) for comments on negotiated settlements);
- Citizens assemblies;
- Public immersion and consultation;
- Ethnographic research;
- Implicit testing / biometric measuring;
- Longitudinal research diaries;
- Literature reviews / data synthesis;
- Secondary data and consumer trends; and
- Geo-targeting techniques.

Our discussion paper also sought views on where the scope to solicit informed opinions from customers is intrinsically limited. Responses to that document and Future Ideas Lab submissions, mentioned:

- Health and safety;
- Complex areas like financial metrics, setting of ODI rates, PC levels / caps / collars / deadbands;
- Affordability, relating to specific bill profiles;
- Engagement which is not meaningful;
- Engagement on areas which are not material or have a low impact on customers;
- Where customers have never suffered a service failure, so stated preference work is based on judgements, not experience;
- Cost of capital;
- Cost efficiency; and
- Serviceability measures.

However, some water companies argued that they can effectively engage on any issue, and that they should engage and share good practice on all areas. Bristol Water, in its submission to the Future Ideas Lab, suggests engagement with customers and local stakeholders covers a full range of issues relating to companies’ business plans, including on technical topics such as risk and return.⁵

Our work in this area is ongoing. We will continue to consider responses received to our discussion paper and submissions to the [Future Ideas Lab](#).

5.1 Negotiated settlements

Some respondents to our December 2020 [discussion paper](#) expressed an interest in exploring the possibility of using negotiated settlements to set price controls at PR24. One noted their strong support for this approach, while another suggested trialling the approach in Wales. A third respondent suggested using a simplified version of the negotiated settlement process to agree small, select aspects of company plans.

Some respondents also noted how negotiated settlements have been used in the economic regulation of the water sector in Scotland. We summarise the approach adopted by the Water Industry Commission for Scotland (WICS) for their most recent strategic review of charges below.

⁵ Bristol Water, ‘Regulating for consensus and trust’, April 2021.

Negotiated settlements in Scotland

The Water Industry Commission for Scotland (‘WICS’ or ‘the Commission’) has used negotiated settlements as the basis for setting the maximum amount of charges that Scottish Water can levy on its customers. The model was first used for the 2015 strategic review of charges, which set prices from 2015 – 2021. WICS also used a negotiated settlement approach for its most recent review of charges, SRC21. In both cases, a ‘customer forum’ was tasked with negotiating with the company. The purpose of the customer forum was to:

1. work with Scottish Water on **a programme of behavioural, quantitative and qualitative research**, to establish customers' priorities for service level improvement and expectations in terms of the levels of charges;
2. ensure that this research programme included a **meaningful level of engagement from communities** (in both a geographic sense and in the sense of persons sharing particular interests);
3. understand and **represent to the Commission and to Scottish Water the priorities and preferences of customers** as identified through the research programme; and,
4. **seek to secure the most appropriate outcome** for both current and future customers, by seeking to agree a business plan with Scottish Water.⁶

To help facilitate the negotiations, **WICS issued a series of ‘Decision Papers’**. These outlined the Commission’s views on a number of topics pertinent to the negotiations, including on issues such as: capital maintenance; the ‘financial tramlines’ for the negotiations; operating expenditure; innovation; enhancement investment and futureproofing service levels.⁷ The forum was expected to negotiate a business plan with Scottish Water which was consistent with the positions outlined in these papers, as well as the objectives set for the company by Scottish ministers.

The co-operation agreement noted that should the forum and Scottish Water agree a business plan within these parameters, **WICS would be minded to issue a draft determination which fully reflected this plan**. Once this was issued, the forum and Scottish Water were expected to review the draft determination and develop a revised plan, taking into account any additional Decision Papers which were issued by the Commission. The Commission would then issue a final determination based on this revised plan.⁸

The Commission issued its final determination for Scottish Water in December 2020, based on the agreement that the Customer Forum reached with Scottish Water.⁹

Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) summarises our views on the use of negotiated settlements in England and Wales. We conclude that the value which negotiated settlements add may depend in part on the context in which they are applied. We

note that adopting this approach across 17 different companies could prove complicated and resource intensive, since we would need to facilitate 17 different negotiations while also developing 17 different backstop determinations.

We highlight that customer forums would need to understand customers’ priorities to inform their negotiating positions, presenting similar challenges to those we have experienced in previous price reviews. There is also a question regarding how to determine who represents customers’ interests in the process, the accountability of these representatives to customers, and determining how or on what grounds we might reject the outcome of such a process. We also note that the regulatory burden is unlikely to be diminished by the process, given the likely need for us to provide views on cost thresholds in advance of the negotiation process and to allow sufficient time to consider the outcomes of the process before final determinations.

Government and other regulators decide on much of the required level of service improvement for PR24, and the assessment of base costs and service is largely a product of a comparative benchmarking approach. Therefore, the scope for negotiated settlement in water sector in England and Wales appears to be modest.

For these reasons we are not proposing to implement negotiated settlements at PR24. Customer views are vitally important, but we also want to ensure they are gathered in a targeted and proportionate way. We consider the proposals in Chapter 6 of [PR24 and Beyond: Creating tomorrow, together](#) may better help do this. However, Chapter 6 also sets out that we are interested in how the benefits of negotiated settlements might be achieved through our price review framework.

⁶ WICS, '[CO-OPERATION AGREEMENT among the Water Industry Commission for Scotland. Scottish Water and Citizens Advice Scotland](#)', May 2017, p. 3.

⁷ These 'Decision Papers' are available on [WICS's website](#).

⁸ WICS, '[CO-OPERATION AGREEMENT among the Water Industry Commission for Scotland. Scottish Water and Citizens Advice Scotland](#)', May 2017, p. 2.

⁹ WICS, '[FINAL DETERMINATION STRATEGIC REVIEW OF CHARGES 2021-27](#)', December 2020, p. 7.

6. Next Steps

We have set out above a number of specific changes that we plan to implement in relation to customer engagement, customer challenge and assurance. We look forward to continuing our work with CCW and the rest of the sector to develop our thinking further.

We will continue to consider submissions to our Future ideas Lab relating to customer engagement. We note that UKWIR has already started work looking at how customers’ and stakeholders’ views should be used in regulatory decisions, and look forward to discussing that work with the sector in due course.

In terms of next steps, we plan to work with the sector to:

- explore the design and implementation of a **collaborative approach to research for the price review**, which will allow us to consider whether and, if so, by how much customers’ preferences differ within and across company boundaries and across the nations;
- develop and agree minimum standards for:
 - **high quality research**;
 - **independent customer challenge** to companies, with a focus on company delivery of commitments made to customers;
 - **independent assurance** of i) the quality of companies’ local customer engagement for the price review and ii) use of the results of local engagement and the proposed nationwide research in price review submissions.
- We are also continuing to explore how to **best capture the views** of customers, communities and stakeholders in PR24 and future price reviews.

Annex 1: Draft minimum standards for high quality research

As explained in the main body of this document, we plan to work with the sector to develop and agree minimum standards for high quality research. We welcome views on the following drafting.

DRAFT – Minimum standards for high quality research

Water company research should follow best practice and lead to a meaningful understanding of what is important to customers and wider stakeholders. To achieve this, water company research should be:

Useful and contextualised – the research should have practical relevance. It should be clear why the research has been undertaken and what it will contribute to. The research should be designed with quality rather than quantity as a priority (i.e. a better quality of research, rather than a larger quantity of research). As much as possible, research findings should be presented alongside a wider evidence base – including research conducted by others. The analysis should contextualise the findings and explain how they will be used.

Fit for purpose – the sample and methodology should be appropriate for the research objectives. Participants should be able to understand the questions they are being asked and surveys should limit the use of forced choice options. A research approach that has previously been challenged should not be repeated unthinkingly. Innovation is welcome if it is likely to lead to meaningful and trusted insight and learning.

Neutral design – research should be designed and delivered in way that is neutral and free from bias. The potential for bias and the ways to negate this should be considered at every stage of a project, and evidenced – set up, question wording, question ordering, stimulus materials, selective use of quotes or data in reporting and interpretation of findings. If there is some inherent bias that is unavoidable or was an unintentional outcome of the research, this should be acknowledged and explained in the research findings.

Inclusive – research should include different audiences and socio-demographics, taking into account local or regional or national populations. Where possible, research findings should identify and report on variances by socio-demographics and consumer types (e.g. bill payers, future customers). Research findings should provide details on those who may have been excluded or under-represented in the research. Where possible, there may be ways to use mix-method approaches to provide a more inclusive set of findings. While the range of representation may vary project to project, the research programme as a whole should be demonstrably inclusive.

Continual – research should be ongoing and business as usual, as well as specific and relevant for informing longer term plans. This will allow areas of concern or change to be more easily identified and acted on.

Shared in full with others – research findings should be published and shared in full, as early as possible with as wide an audience as possible. This will add value to the evidence base on customers, by allowing research approaches to be understood and improved on; and by allowing research findings to be considered in a comparative way – meaning water companies can better understand their own customer base, by comparison with the findings of other areas.

Research findings should always be accompanied by clear and detailed information on the methodology for the research. This should include, for example, recruitment screeners, questionnaires, discussion guides, and copies of any stimulus materials used.

Independent assurance – research should be reviewed by individuals or groups that are independent of water companies. Those reviewing research should have a range of skills and experience, and feel confident and able to challenge on all elements of research. Information shared with them should be relevant and timely. Water companies should be transparent about the feedback and whether, and in what ways, it has been used. Further guidelines on independent assurance will be developed with the sector.

Ethical – research should be conducted in line with the ethical standards of a research body – such as the Market Research Society or the Social Research Association.

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