

October 2021

PR24 and beyond position paper: Collaborative customer research for PR24

About this document

This paper sets out our approach to conducting customer research collaboratively with CCW and the sector for PR24 to inform:

- Common performance commitments
- Outcome delivery incentive (ODI) rates
- Acceptability and affordability testing.

It follows Ofwat's recent consultation - [PR24 and Beyond: Creating tomorrow, together](#) - which set out Ofwat's vision for customer engagement at PR24.¹

The paper sets out the scope of the collaborative research, its fit with company-led research and engagement, the timing of the collaborative research, the delivery of the fieldwork, the governance arrangements and our next steps.

¹ 'Creating tomorrow, together' reflected responses to our December 2020 [PR24 and beyond: Reflecting customer preferences in future price reviews- a discussion paper](#)

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1. Introduction

This paper provides details on our approach to the collaborative customer research that will inform certain aspects of companies' PR24 business plans and Ofwat's PR24 determinations.

It follows Ofwat's recent consultation - [PR24 and Beyond: Creating tomorrow, together](#) - which set out Ofwat's vision for customer engagement at PR24.² This includes working collaboratively with the sector to design and implement customer research for the price review that covers common aspects of companies' business plans and our determinations, such as incentive rates for common performance commitments, and affordability and acceptability testing.

This approach is intended to address issues encountered at PR19. At PR19, we found that companies had engaged with more customers than ever before, with many companies demonstrating high quality and innovative approaches.³ However, we also found problems with the quality of research approaches in some instances, meaning that we could not rely on the evidence.⁴ We also found the results from companies' research varied significantly on common issues, with no clear underlying reason for the differences.⁵

Since publishing our consultation we have held various workshops to further develop our policy. The approach set out in this paper takes account of the comments received in these workshops as well as the stakeholder responses to our consultation.

The research is a major sector-wide customer engagement exercise. We have therefore developed a partnership with CCW for the design and delivery of the research, reflecting CCW's role as independent customer representative and their experience in conducting research in the water sector.

We will also work collaboratively with companies. This will allow us to take account of companies' own experience of customer research for price reviews. It will also allow companies to take account of the work in their wider research programmes. This includes research to develop local aspects of their business plans.

It is also vital that companies understand their customers' needs and preferences and work with them as part of their day-to-day operations, not just for the price review. This includes carefully considering and responding to complaints, engaging with customer groups and organisations, as well as conducting market research. We expect companies to build on and take forward their own engagement with customers for PR24 and beyond, taking

² This reflected responses to our December 2020 [PR24 and beyond: Reflecting customer preferences in future price reviews- a discussion paper](#)

³ January 2019, [PR19-initial-assessment-of-plans-Summary-of-test-area-assessment.pdf \(ofwat.gov.uk\)](#), p28

⁴ December 2020, [PR24-and-beyond-Our-reflections-on-lessons-learnt-from-PR19.pdf \(ofwat.gov.uk\)](#), p48

⁵ [PR24 and beyond: Creating tomorrow, together](#), May 2021, p. 57.

responsibility for their relationship with customers and best serving the diverse needs of their customers.

In the remainder of the paper we set out the scope of the collaborative research, its fit with company-led research and engagement, the timing of the collaborative research, the delivery of the fieldwork, the governance arrangements and our next steps.

2. Scope of collaborative customer research

The collaborative customer research will cover the following areas:

- **Research on common performance commitments**
- **Outcome delivery incentive (ODI) rates research**
- **Acceptability and affordability testing**

The **research on common performance commitments** will aim to test the extent to which the common performance commitments (PCs) we are considering for PR24 correctly reflect the key service attributes of interest to customers across the country and whether any gaps in coverage exist.⁶ It will also consider the framing of service attributes for use in ODI rates research. This builds on research submitted by companies in response to a call for information for the results of any customer research they have undertaken into overall customer priorities.

The **ODI rates research** will inform the ODI rates for common PCs for each company. The research will use a common methodology across company operating areas, taking account of variation in existing performance levels, and so provide comparable results across the sector. We want the results to be robust at company level, so that we can identify differences in the customer values across different company areas. If differences are statistically significant, we will look at the possible reasons for this. Where there is evidence that the differences reflect variations in the underlying preferences, we expect to consider how to reflect this in the indicative ODI rates that we intend to publish ahead of business plan submissions.⁷

We intend to use the same methodology across both England and Wales, so the results are comparable, although some differences may be appropriate. For example, we may have to frame some questions differently for customers of Dŵr Cymru to take account of its not-for-shareholder structure. We may also have to account for any differences resulting from different legislation in England and Wales. Research materials in each nation will be in the nation's official language.

The **acceptability and affordability research** will be used to test customer views on the acceptability and affordability of companies' business plans prior to submission to Ofwat, and the acceptability and affordability of Ofwat's draft determinations.

⁶ Chapter 9 of [Creating together, tomorrow](#) set out our view that our outcomes framework should focus on incentivising the delivery of outcomes of enduring interest to customers. Many of such outcomes will be common to all, or at least a subset of, companies, rather than unique to a particular company and these should be captured by a common PC.

⁷ Chapter 4 of [Creating together, tomorrow](#) explained that we are considering whether we could provide more information to companies ahead of their business plan submission. This includes information on ODI rates, based on the collaborative research.

Stakeholder responses

The majority of companies responding to [Creating tomorrow, together](#) recognised that a collaborative approach to customer engagement for PR24 could deliver benefits in terms of greater comparability and transparency in results, and were supportive of it covering ODI rates, and affordability and acceptability in particular. Some suggested it should also cover performance commitment levels. For PR24, we are proposing to set initial performance commitment levels at the level corresponding to base expenditure, with deviations from that based on companies' own research in particular relating to their long-term delivery strategies.⁸ We therefore do not think it is appropriate for the collaborative research to cover performance commitment levels.

A minority of companies were not in favour of any collaborative research. Northumbrian Water told us that it risks reversing the positive trend seen in customer engagement in recent reviews. Bristol Water told us it will constrain learning and innovation. Our proposal for collaborative research is intended to overcome the issues we experienced at PR19, which limited our ability to rely on the customer evidence.⁹ We do not think the collaborative research will undo the progress we have seen in companies' engagement with their customers or constrain learning and innovation. We expect companies to understand, work with and learn from their customers as part of their day-to-day business. We also expect companies will continue to be responsible for engagement with their customers on many aspects of their business plans, including evidence to support development of long-term delivery strategies and further company specific aspects of their plans. We welcome innovation in all aspects of customer engagement.

⁸ Chapter 6 of [Creating together, tomorrow](#) set out that we expect companies to provide evidence of customer views on local issues, such as proposed long term investments and their phasing. Chapter 9 explained that the starting point for PR24 PC levels could be the level of performance an efficient company could achieve from base costs, with variations put forward by companies to continue to deliver outcomes in the long-term.

⁹ We set out the expected benefits of collaborative customer research and our response to those stakeholders that do not think it is appropriate in further detail in section 3 of [Creating tomorrow, together appendix – reflecting customers' preferences](#).

3. Relationship with company-led research

We expect companies to build on and take forward their own engagement with customers for PR24 and beyond, taking responsibility for their relationship with customers and best serving the diverse needs of their customers.

Companies must understand their customers' needs and preferences and work with them as part of their day-to-day operations, carefully considering and responding to complaints, engaging with customer groups and organisations, as well as conducting market research. They will also remain responsible for customer research informing aspects of the price review such as customer views on long-term goals (over and above any statutory requirements), and the best way to achieve these, taking account of affordability constraints. Local customer research should also be used to justify bespoke performance commitments relating to local circumstances.¹⁰

Companies' research to inform their long-term delivery strategies may include willingness to pay research. Such research may be used to inform requests for enhancement funding in business plans. This could overlap with the collaborative ODI rates research for common PCs. For example, a company may submit willingness to pay evidence for avoiding supply interruptions of greater than 12 hours duration to support an enhancement case which could overlap with more general supply interruptions evidence generated from the collaborative ODI rates research.

Enhancement funding cases are likely to relate to specific questions and require more detailed research than that needed to inform ODIs. ODI rates provide broad incentives, and the precision of willingness to pay research is likely to be limited.¹¹ For setting ODI rates, there is significant benefit from consistency of methodology and comparability of results across companies.

We will carefully scrutinise customer engagement evidence submitted by companies as part of their long-term delivery strategies. We expect companies to demonstrate they have considered the coherency between the evidence used to inform ODI rates and evidence collected to support their enhancement cases, where appropriate, explaining how they have accounted for differences.

We strongly discourage companies from submitting research solely to inform ODI rates for common PCs. This would duplicate the collaborative research and so be poor use of customer money. As we attach significant importance to the consistency of customer evidence to

¹⁰ As we set out in [Creating tomorrow, together](#), we expect these bespoke performance commitments to focus on unique circumstances of local communities which are best dealt with through financial incentives. We therefore expect there to be fewer bespoke PCs than in PR19.

¹¹ As we set out in [PR24 and beyond: Creating tomorrow, together](#), p94, that accuracy of marginal cost data, which is also used to inform ODI rates, may also limit the precision of ODI rates.

inform ODI rates across companies, we will make a judgement on the weight we assign to any company-specific research in our triangulation - which may be zero.

Stakeholder responses

Most companies agreed that the collaborative ODI rates research needs to be complemented by company-led local customer engagement. Some companies told us that they would want to triangulate results from collaborative research with their own evidence to ensure local priorities are reflected. As above, for areas of research that are common across companies, we want to achieve consistency of approach and comparability of results. We will therefore attach greater weight to the results of the collaborative research for these areas.

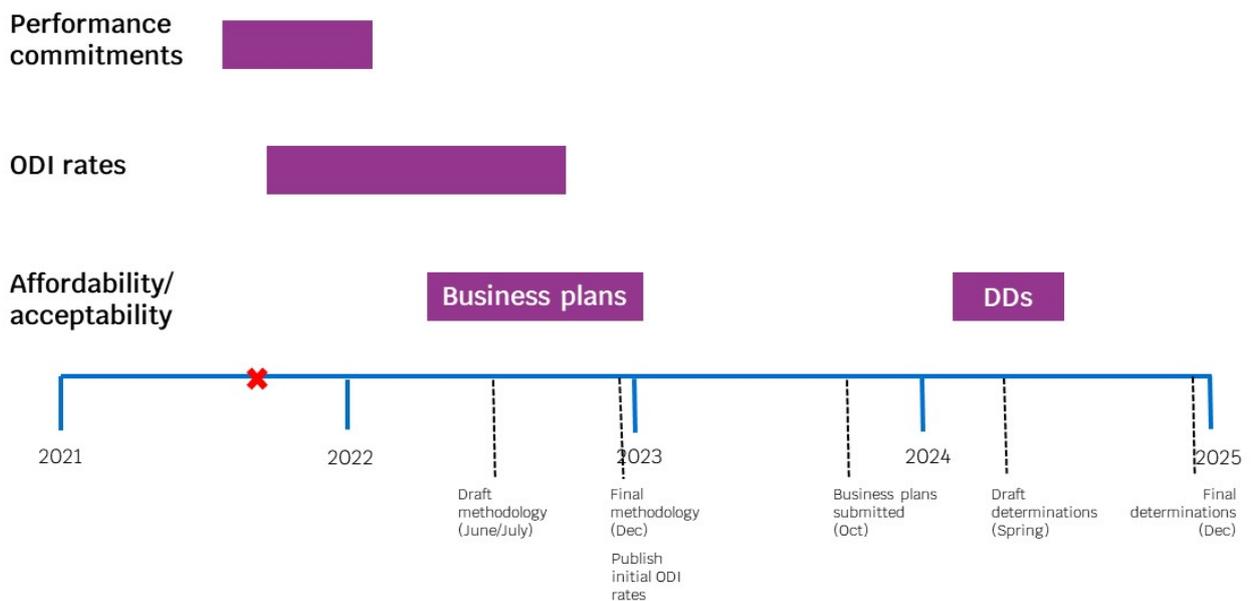
4. Timing of collaborative customer research

The timing of the collaborative research is illustrated in Figure 1. Ofwat and CCW will shortly commission the research on performance commitments and aim to complete the fieldwork by early 2022, in order that it can inform the ODI rates research.

We have already begun work on the ODI rates research, together with CCW, and are appointing agents to design the research methodology and develop research materials. We expect fieldwork to be carried out between April 2022 and July 2022, which we will then analyse. We are planning to procure any econometric analysis needed to develop the ODI rates separately. We intend to publish indicative ODI rates alongside the PR24 Final methodology in December 2022.

The acceptability and affordability research will take place in two distinct phases. The first phase will be the design of a survey which companies can use to test their business plans. This will take place during 2022. The second phase will test acceptability and affordability of our draft determinations following publication in spring 2024.

Figure 1: Timeline of collaborative research projects



Stakeholder responses

Companies emphasised the need to make progress on the ODI rates research, with some saying that results are required by the time of the Draft methodology or sooner, so that they could use it as a basis for their own research to inform their long-term delivery strategies. While we agree with the need to make progress in these areas, we do not think it will be feasible to conduct the research to a shorter timetable. We recognise that there may be overlap between the collaborative research and companies' own research to inform business

plans. This is discussed above. But this does not invalidate the need for consistent research to inform ODI rates, to overcome the issues we saw at PR19.

5. Delivery of the collaborative research

We have considered how the collaborative research should be delivered and conclude that the method may differ for each piece of work:

- Ofwat and CCW will commission and carry out the fieldwork for the performance commitment research jointly (a 'centralised' approach to development and fieldwork).
- For the ODI rates research, Ofwat and CCW have commissioned the research on the methodology and development of research materials, as set out above. Depending on the methodology selected, we will either commission an agency to carry out the fieldwork across the nations for all companies ('centralised'), or request that companies deliver the fieldwork with their own research agencies using the commonly specified methodology ('standardised'). We are likely to request that companies collaborate on the fieldwork. At a minimum this would involve water only companies collaborating with the water and sewerage companies in their operating areas, but there may also be benefit in a greater degree of collaboration.¹² Once the results of the research are available, we or our agent will collate and analyse these.
- The acceptability and affordability research for business plans will be developed centrally, and fieldwork will necessarily be conducted on a 'standardised' basis as companies will have to test their own plans. The testing of draft determinations will be conducted on a centralised basis (as CCW did at PR19).

This is summarised in Table 1 below. In all cases, companies would have a role in inputting information to the company-specific elements of surveys and we expect that companies will work with us to supply this information in a timely manner. For the ODI rates research, this includes information such as existing levels of performance and the scope for improvement. Ofwat will have a role in validating these inputs to ensure they are realistic, and to drive consistency of approach across companies. Ofwat will estimate on the performance increments to test.

Because the collaborative research will encompass activity and costs that would otherwise be accommodated within each company's plans and budgets during the preparation of PR24 business plans, we expect companies to pay for the fieldwork with their own customers for the ODI rates research and affordability and acceptability testing of business plans, regardless of whether it is conducted on a centralised or standardised basis. The remaining work will be jointly funded by Ofwat and CCW.

¹² Water companies already collaborate on customer engagement as part of their regional Water Resource Management Plans.

Table 1: Summary of nature of collaborative research

Element of collaborative research	Approach to research materials development	Approach to fieldwork
Performance commitment research	'Centralised'	'Centralised'
ODI rates research	'Centralised'	'Centralised' or 'standardised'
Acceptability and affordability testing of business plans	'Centralised'	'Standardised'
Acceptability and affordability testing of draft determinations	'Centralised'	'Centralised'

Stakeholder responses

Some companies responding to [Creating tomorrow, together](#) were concerned that a centralised approach risks masking the priorities of their particular customers. We do not agree, as the results of the ODI rates research and affordability and acceptability testing would be robust at a company operating boundary level, and reveal variations in the preference of customers in different areas (as mentioned in section 2).

The responses also suggested that a 'standardised' approach may be quicker to conduct as companies may already have procurement arrangements they can use to carry out the fieldwork. This would allow more time for companies to reflect the results in their business plans. On the other hand, unforeseen differences in the delivery of the centrally designed research may occur which could reduce the comparability of the results. Such differences may be reduced if companies jointly procure a research agency. This may entail some or all companies working together across operating boundaries to jointly procure the fieldwork.

We will be involving companies in the development of the ODI rates research approach and expect to come to a decision on the best approach to commissioning the related fieldwork, late in 2021 or early in 2022.

6. Governance of the collaborative research

Figure 2 provides details of the proposed governance arrangements for the collaborative research. It illustrates that Ofwat, in consultation with CCW, will specify the scope and timing for the collaborative research.

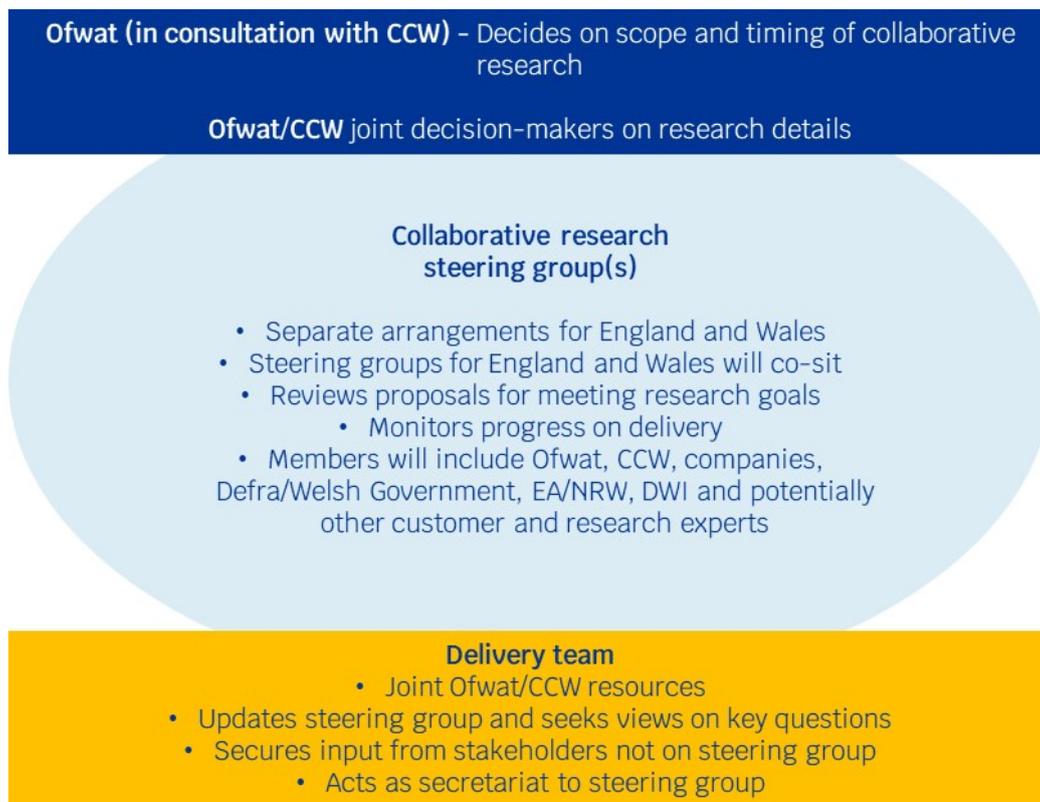
We will establish steering groups to consider how best to meet the objectives of the research. These will be separate for England and for Wales, recognising that the research may be different across the two nations. However, as many issues will be common across the nations, and we are aiming to maximise the comparability of the results, the steering groups will co-sit.

The steering groups would include members of Ofwat, CCW and company representatives. We welcome representation on the steering groups from each of the companies, on a trial basis to ensure discussion in the groups is manageable. We will review how this arrangement is working in early 2022. We are also inviting wider stakeholders to be involved, including representatives from government (Defra and Welsh Government), environmental regulators (Environment Agency and Natural Resources Wales), the water quality regulator (Drinking Water Inspectorate) and potentially other consumer groups, such as Citizens Advice. Ofwat and CCW will make final decisions on the research, taking account of the steering groups' views.

Terms of reference for the collaborative research steering groups will be developed in the coming months, through discussion with all parties to the collaborative research. We have arranged meetings during the remaining months of 2021 in order to develop our initial thoughts, starting in October 2021. We are aiming for governance arrangements to be agreed and in place no later than January 2022. We are proposing that there will be a separate terms of reference for England and Wales. This would allow the underlying research programmes to differ, where required, for each country.

The steering groups will be supported by a delivery team resourced by CCW and Ofwat, which will undertake the day-to-day management of the research. It will also have responsibility for consulting relevant stakeholders not represented on the steering group.

Figure 2: Governance arrangements for the collaborative research



Stakeholder responses

In response to [Creating tomorrow, together](#) some companies told us that all companies should have representation on the steering group. While this may be the most effective method of ensuring all companies are kept up to date on the activities of the steering groups, we are concerned that this may not be conducive to effective discussion in the steering groups. We will therefore include all companies in the steering groups on a trial basis. We will review the effectiveness of this arrangement in early 2022.

Welsh stakeholders also stressed the importance of separate steering groups for England and for Wales.

7. Next steps

We will continue to engage with the sector via industry workshops and in the establishment of the collaborative research steering group.

We will also continue to engage on wider issues around customer engagement. [Creating tomorrow, together](#) included our proposed draft minimum standards for high quality customer research and we committed to work with the sector to develop and agree minimum standards for independent customer challenge and assurance. On 1 June CCW published its report on '[Future consumer representation models](#)' exploring alternative ways of ensuring local consumer representation. Ofwat and CCW will work with companies to agree a final set of standards for independent customer challenge and assurance, and for high-quality research, by the end of 2021.

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