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**PR24 and beyond:
Customer engagement policy
– a position paper**

About this document

At this point in the price review cycle, companies are preparing their PR24 business plans. We expect all companies to be engaging with customers to make sure their business plans take account of customers' needs, priorities and preferences.

This document sets out our expectations for the standards that should be achieved by companies during business plan development for:

- high-quality research;
- customer challenge on the nature, quality and use of customer engagement evidence; and
- assurance of the quality and use of customer engagement evidence.

We expect the customer and stakeholder engagement framework set out in the PR24 draft methodology to largely reflect the content of this document, together with our October 2021 ['Collaborative customer research for PR24'](#) position paper. The draft methodology will be published in July 2022.

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1. Introduction

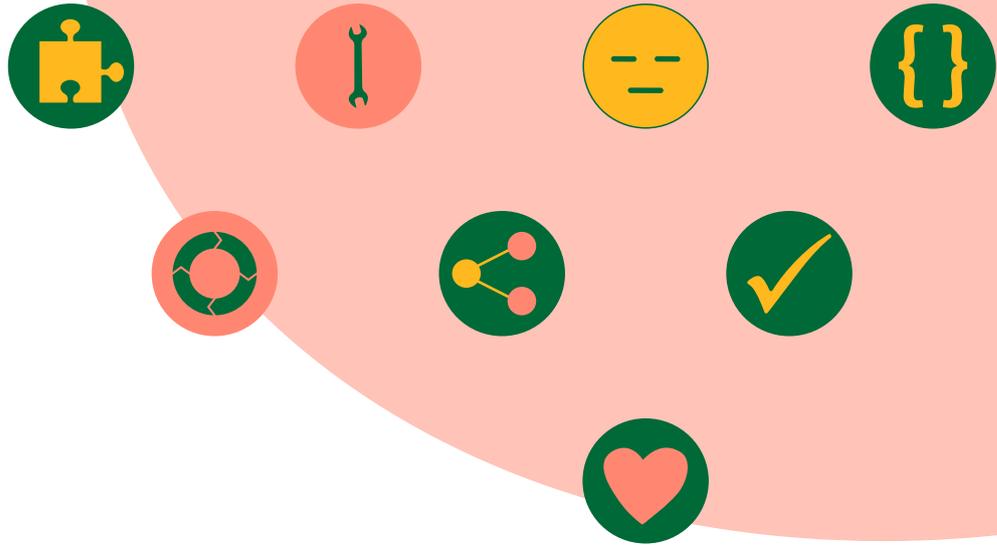
Our approach to customer engagement for PR24 has some differences from PR19.¹ Our aim is to improve the overall quality, reliability and use of customer evidence for PR24. Recent changes to our customer engagement policy include:

- **Development of a collaborative approach to some of the customer research that will inform common areas of companies' business plans and our decisions ('collaborative research')**. We published our ['Collaborative customer research for PR24'](#) in October 2021, describing the scope, timing, approach to delivery and governance for the collaborative research. The collaborative approach involves companies, CCW and Ofwat working together to develop and implement customer research to inform common parts of business plans and our decisions. It forms a part of each company's overall engagement approach, with companies undertaking research and other forms of engagement to inform bespoke elements of business plans, long-term delivery strategies and ongoing business decisions. We are involving companies and other stakeholders in the development of the collaborative research via the governance arrangements that have been agreed (see [Appendix 1](#) for the terms of reference for the steering groups).
- We mentioned in our May 2021 ['Creating tomorrow, together'](#) that we would not be defining the role of a customer challenge group for each company. **Instead, we proposed development of standards for high-quality research, customer challenge and assurance of the quality and use of customer and stakeholder engagement evidence.** Draft standards for high-quality research were shared in 'Creating tomorrow, together' and we have been developing standards for challenge and assurance in consultation with companies and other stakeholders for inclusion in this paper. Companies are expected to put in place challenge and assurance solutions to meet their individual needs, ambitions and circumstances, while ensuring that they meet the standards we set out in this paper.

This document focuses on standards for customer engagement during price review business plan development.

We continue to expect companies to engage with customers and other stakeholders on an ongoing basis, to inform day-to-day business decisions. We have taken the opportunity to refresh and simplify the customer engagement principles established for earlier price reviews – see [Appendix 2](#). We encourage companies to recognise the relationship between, and overlapping nature of, the principles of customer engagement and the standards for high-quality research, customer challenge and assurance of customer engagement.

1. Throughout the remainder of this document, we use 'customer engagement' as an overarching term which covers understanding customers' views and preferences. This includes through formal customer research exercises as well as other methods of understanding customers' views, such as company analysis of data from day-to-day operations.



2. Standards for high-quality research, customer challenge and assurance of customer engagement

We explained in ‘Creating tomorrow, together’ our intention to develop standards for high-quality research, customer challenge and assurance of customer engagement, leaving flexibility for companies to design approaches to challenge and assurance that meet their specific needs, ambitions and circumstances.

The following standards are intended to be adopted for the price review in addition to, and in support of, the principles of customer engagement (see [Appendix 2](#) for a statement of refreshed and simplified principles of customer engagement).

High-quality research

We set out draft minimum standards for high-quality research in ‘Creating tomorrow, together’.² Having considered feedback on this and subsequent conversations with the water sector and research experts, the following statements explain our current thinking on standards for high-quality research.

Overall, water company research and engagement should follow best practice and lead to a meaningful understanding of what is important to customers and wider stakeholders.

2. See Annex 1 of [‘Appendix: Reflecting customers preferences’](#).

To achieve this, water company research should be:

Useful and contextualised



Research should have practical relevance. It should be clear why the research has been undertaken, to what it will contribute and how. The research should be designed with quality rather than quantity as a priority (in other words, 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.

Neutrally designed



Research should be designed and delivered in a 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 – including 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.

Fit for purpose



The research 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.

Inclusive



Research should include different audiences and socio-demographics, considering local or regional or national populations, business customers and business retailers. Where possible, research findings should identify and report on variances by socio-demographics and consumer types (for example, bill payers, future customers).

Research findings should provide details of those who may have been excluded or under-represented in the research. Where possible, research should use mix-method approaches to provide a more inclusive set of findings. While the range of representation may vary from project to project, the research programme as a whole should be demonstrably inclusive.

Continual



Companies' research programmes should be continual, enabling day-to-day insight gathering, as well as specific and relevant research for informing business plans and long-term delivery strategies. This will allow areas of concern or change to be more easily identified and acted on.

Independently assured⁴



Research should be reviewed by individuals or groups that are independent of water companies. Those reviewing research should have a range of relevant 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 research findings and whether, and in what ways, it has been used.

Shared in full with others³



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;
- by building the shared knowledge base about customers' views, preferences and experiences;
- 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 from 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.

Ethical



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

3. We recognise issues related to sharing customer data or commercial sensitivities and will continue to work with water companies to enable sharing of research and engagement data in full, considering these issues.

4. Standards for assurance of customer engagement are set out later in this document.

Customer challenge

Customers and their representatives must be able to challenge the companies' ongoing performance, business plans and long-term delivery strategies. The purpose of customer challenge is for companies to receive feedback on what issues matter to customers, what their views are on various aspects of companies' activities, and to enable customer comment on how well plans reflect their needs, priorities and preferences.

We expect evidence of customer challenge to demonstrate the following:

Independence

The people involved in customer challenge, and the process of challenge, are independent of the company.

It is of primary importance that the mechanism for customer challenge is truly independent of the company and ensures that the company listens to representative voices. This means that challenge solutions should:

- Be at arm's length from the company, with no restrictions or expectations placed on it which would compromise its independence. Any conflicts of interest or links between the source of the challenge and the company should be clearly explained and justified.
- Minimise company contribution to, and review of, any outputs from the customer challenge before it is shared publicly. The public sharing of all outputs from the customer challenge is a key requirement of companies, to ensure transparency. Companies should check for factual accuracy of outputs but should avoid any undue influence.

Board accountability

The company board is accountable for having in place a mechanism for, and listening to, customer challenge.

Company boards should be able to demonstrate how business plans and wider decision-making take account of matters that are important to customers, including those highlighted through the customer challenge process.

Ongoing

Customer challenge is ongoing, addressing both development and delivery of business plans.

Companies should be able to provide evidence of welcoming and responding to challenges on their day-to-day performance as well as during the development of their business plans for price reviews and long-term delivery strategies.



Informed

The challenge process is informed by high-quality, comparative information and trends over time.

This includes:

- The company and others providing access to, and explanation of, all relevant and helpful information, data and evidence with which to compare performance with other companies and over time, to enable meaningful and effective challenge.
- Information being provided freely by the companies when requested, with nothing deliberately withheld, and no limitations on sharing (unless justified due to customer data protection or commercial sensitivities).
- Those challenging should have the time, resources and expertise to do so effectively.



Transparent

The company is transparent about the nature of challenges raised, the company response to each challenge and the company's relative performance.

Companies should be able to demonstrate that they have been transparent with customers about their relative performance levels by using information with definitions wherever possible that are consistent across the industry. Companies should be able to provide evidence to demonstrate how they are listening to customers. This should include:

- An explanation of how evaluations of different business plan options have taken account of customer views, with a focus on the options which provide the greatest benefit for customers and the environment.
- Timely publication of evidence of customer views gathered through research or engagement exercises (with consideration of customer data protection and commercial sensitivities).⁵
- A published record of all challenges raised by customers or their representatives.⁶
- Published evidence of the company's responses to these challenges, including reasons for why no action is required.⁷
- Clear identification of areas of disagreement.

5. 'Shared in full with others' is one of the standards of high-quality research. We recognise issues related to sharing customer data or commercial sensitivities and will continue to work with water companies to enable sharing of research and engagement data in full, considering these issues.

6. We recognise issues related to sharing customer data or commercial sensitivities, but expect such exceptions to be minimised.

7. Ditto



Representative

Challenge comes from a representative range of customers and is open to all relevant local or national stakeholders.

The challenge process should ensure that the company takes into account the views and experiences of the broad range of customers they are serving. This could include experienced, technical specialists in customer research and water and wastewater services, and members of the general public (customers). Customer challenge should make sure that the views of the range of end user customers (including household, business, hard to reach, vulnerable and future customers) are understood by the company and taken account of in decision-making. Insight provided by intermediate customers (for example, business retailers) should also be considered.



Comprehensive

Challenge is focused on the full range of areas where customers can have meaningful views, including:

- water and wastewater services (where applicable to the company);
- customer services;
- significant investment (large one-off schemes);
- performance levels; and
- bill impacts.

Challenge should focus on important and material or urgent issues which companies should incorporate into their business plans and long-term delivery strategies for price reviews or wider decision-making.



Timely

Customers are able to challenge on a timely basis, with companies responding within a reasonable time period. Companies' challenge arrangements should allow sufficient time for effective challenge.

Assurance of customer engagement

We expect company boards to provide assurance of the quality of customer engagement and that customers' views have been taken account of in business plans and long-term delivery strategies.

We can see directly how the collaborative customer research that is being undertaken ahead of PR24 is used by companies in their price review submissions and by Ofwat in our draft determinations.⁸ We expect companies to be able to provide complementary assurance of company-specific customer engagement and how it was used to shape business plans and long-term delivery strategies.

We expect evidence of the assurance of the quality and use of customer engagement in business plans and long-term delivery strategies to be:

Independent



Assurance of the quality of customer engagement, and how the companies have used the findings in their business plans and long-term delivery strategies, should be provided independently of the companies with no restrictions on reporting.

This means:

- companies should not input to, or review, the assurance before it is issued, other than to check for factual accuracy.
- assurance should contain clear statements and evidence that the process was conducted independently of the company.

Transparent



Companies should share all relevant customer engagement and research evidence to enable whoever is providing assurance to reach a fully informed, independent view of how the company has taken account of customers' views.

Information shared should be factual, objective and comprehensive, not selective or interpreted. This may include data and information from day-to-day operations, and materials related to specific engagement exercises. Companies should be able to demonstrate how they have taken account of evidence from customer engagement. Companies should be able to explain why they have not taken account of evidence from customer engagement or research wherever this is the case.

Expert



Assurance of customer engagement should be undertaken by people or organisations that have relevant expertise and are appropriately resourced to complete the assurance exercise.

8. See ['PR24 and beyond: Collaborative customer research for PR24'](#)

Comprehensive



Assurance needs to assess the extent to which the company's customer engagement meets the standards for high-quality research and any other relevant statements of best practice, including how it has applied the best practice for triangulation of customer data from alternative sources.⁹

Board ownership



Company boards should demonstrate oversight of the customer engagement assurance process. This means that company boards:

- should be shown, and review, evidence from customer engagement and research.
- should develop confidence that company decisions take account of customers' views, preferences and experiences.
- should satisfy themselves that company business proposals and long-term delivery strategies are based on high quality research and engagement.
- should be prepared to provide a statement that the company's customer engagement and research meets the standards for high-quality research and any other relevant statements of best practice.

Wider challenge and assurance of company business plans

We are continuing to work closely with CCW on all aspects of customer engagement policy development. This includes discussions about CCW's role within the customer challenge and assurance solutions that companies will put in place to address the standards for high-quality research, customer challenge and assurance of customer engagement.

We welcome CCW's proposal for a 'challenge co-ordination group' and its intention to:

- raise standards for customer engagement;
- improve sharing of best practice on customer engagement across the sector; and
- improve the availability and understanding of comparative information.

We understand that CCW are planning to issue an update on their earlier '[Future consumer representation models](#)' in the near future and are beginning the implementation of the 'challenge co-ordination group'.

We continue to explore opportunities for us to hear more directly from customers and local/national stakeholders, about their views of final PR24 business plan proposals and long-term delivery strategies.

9. Assurance is expected to refer to CCW's [triangulation](#) report.

Appendix 1: Terms of reference for collaborative customer research steering groups

Overall aim

The steering groups for collaborative customer research will provide input to allow Ofwat and CCW to make informed decisions on the design of collaborative customer research for PR24 for England and Wales. This is likely to include research to inform:

- Performance commitments.
- ODI rates.
- Affordability and acceptability testing of business plans.
- Affordability and acceptability testing of draft determinations.

There will be separate steering groups for England and Wales, co-sitting where this is the most efficient approach.

Role of the steering group

The key objectives of the steering groups are to:

- Review proposals to achieve research goals in terms of methodology, research materials and reporting of research findings.
- Consider advice from experts on consumers, environment and research.
- Consider roles and resource/financial contributions of Ofwat, CCW and companies.
- Monitor progress on delivery of the collaborative research programme, to make sure that the nature and timing of research findings meeting Ofwat's, CCW's and companies' needs
- Receive input from Defra/Welsh Government, Environment Agency/Natural Resources Wales and DWI.
- Comment on issues escalated by the joint Ofwat/CCW delivery team.
- Overseeing any sub-groups of members (e.g., task and finish groups) who are tasked to review specific areas.

Decision-making

Decisions on the customer research will be made collaboratively between Ofwat and CCW, having considered any relevant feedback from water companies and interested parties, and recognising that Ofwat will lead on decisions relating to the overall price review and regulatory mechanisms.



Steering group members

Each member organisation will have a named representative and may nominate a deputy if they are unable to attend a meeting.

The primary members of the steering groups will be: Ofwat, CCW, water-only companies and water and sewerage companies. These members will be present at all meetings and will advise on the feasibility and implications of research proposals. We will review the involvement of all or some water companies from time to time, with the aim of balancing the effectiveness of meetings with the need to ensure that all company voices are represented and heard.

Independent consumer customer representatives, environmental experts, covering England and Wales as appropriate, and an impartial customer research expert will be present to advise on and assure the collaborative research proposals. Representatives of business customers and business retailers will also be invited to represent the interests of these groups.

England-only steering group

For the steering group for England, additional members will include key stakeholders such as Defra, Environment Agency, DWI and Natural England who will advise on whether the proposals meet their regulatory requirements and add insight to the discussion. These members may choose to attend meetings less frequently. Special arrangements can be made to keep wider members informed of progress.

Wales-only steering group

The steering group for Wales will also include key stakeholders such as Welsh Government, Natural Resources Wales and DWI. Again, these members may choose to attend meetings less frequently and special arrangements can be made to keep them up to date with progress.

Co-sitting

The groups for England and Wales will co-sit as far as possible, to enable consistency in the collaborative research approaches in England and Wales. We recognise that some differences in the collaborative research approach may be justified for England and Wales due to differences in the wider context.

Where necessary, the agenda for a steering group meeting will be arranged to enable attendance for Wales-only or England-only parts of the discussion, if these are needed.

Management of the steering groups

The Chair of the steering groups will rotate between Ofwat and CCW, with secretariat being provided by the joint Ofwat and CCW delivery team.

Meetings will take place on a monthly basis during 2022 and quarterly (or as required) during 2023 and 2024. Meetings will predominantly be virtual, unless the group identifies that an in-person meeting would be beneficial. Meeting minutes will be circulated to all steering group members.

The frequency of steering group meetings will be reviewed on a regular basis.

Code of conduct and behaviour

The steering groups are fora to allow partnership and collaboration within the industry and with interested parties. All members are expected to behave within this spirit.

However, there may be instances where decisions are made by Ofwat and CCW which are not reflective of the views of all members.

All members of the steering group will be required to respect the need for confidentiality of meeting materials, discussions and/or the results of research, if/where this is needed to protect commercially sensitive information.

Appendix 2: Principles of customer engagement

We set out, below, an updated set of principles for customer engagement. The refreshed principles include all aspects of the PR19 customer engagement policy that we consider continue to be relevant and applicable.¹⁰ We have also developed the principles to reflect where our expectations have evolved, for example, to reflect our focus on the opportunities to develop collaborative approaches to customer research in order to maximise consistency of approach and comparability of findings, where appropriate.

We continue to expect companies to put current and future customers at the heart of the way that they run their businesses. We still consider ‘customers’ as being the end users, that is residential and business users of water and wastewater services.

Our work with the sector on public value additionally recognises the opportunity for water companies to maximise environment and social value, meaning that we have an increasing expectation that companies seek to understand and act upon citizen and community priorities when carrying out their functions (we are soon to publish final public value principles).

The following principles provide clarity on our high-level expectations of what good quality engagement looks like both to inform the price review and ongoing business decisions. We do not prescribe how companies should engage with customers or stakeholders.

Principle 1 – the right outcomes at the right price, at the right time

Customer engagement is essential to enabling water companies to deliver outcomes that are important to customers, society and the environment, at the right time, at a price they are willing to pay.

Principle 2 – two-way and ongoing engagement: listening and talking

Engagement means understanding what customers want and responding to that in plans and ongoing delivery, transparently, building legitimacy and trust. It also means involving customers in service design and delivery, providing education and sharing information to support their meaningful and active engagement. Engagement should not take place only at price reviews.

10. Our May 2016 [‘Customer engagement policy statement and expectations for PR19’](#) document reiterated principles of customer engagement that were originally set out in 2011. We considered that these remained fit for purpose as we developed our approach to customer engagement ahead of PR19, but built on them, based on learning from PR14. During 2017 we published [‘Tapped In’](#) to help companies move customers from passive recipients of water company services to active participants in helping achieve a successful long-term future for water.

Principle 3 – meaningful and high-quality engagement

Water company engagement with customers must allow participation in a way that is meaningful to them, follow engagement best practice and lead to a meaningful understanding of what consumers want. It is the companies' responsibility to engage with customers and to demonstrate that they have done it well.¹¹

Principle 4 – customise and provide context

Engagement is not a 'one-size-fits-all' process but should reflect the particular circumstances of each company and its full range of customers. Wherever possible, information about comparative company performance should be shared with customers.

Principle 5 – use of multiple sources of customer data

A robust, balanced and proportionate evidence base, developed using a range of techniques and data sources should support companies having a genuine understanding of their customers' priorities, needs, requirements, and behaviours.

Principle 6 – understanding current and future customers

Companies should understand and respond to the diverse needs of customers, making sure they take into account different regional challenges, or variances in demography, outlook and socio-economic status. This also includes future customers and those in circumstances that might make them vulnerable or hard-to-reach. Engagement should support customers to inform the phasing of investments in long-term delivery strategies.

Principle 7 – consistency and comparability¹²

In areas that are of common concern to all customers, and where it is most efficient and sensible to do so, evidence of customers' preferences should be generated in a consistent manner, set in the context of current company performance, producing results that are comparable across water companies in England and/or Wales.

Principle 8 – protecting customers' interests

Customers and their representatives must be able to challenge the companies' ongoing performance, business plans and long-term delivery strategies.¹³ If this is not done effectively, we must be able to challenge on customers' behalf. We will use a risk-based approach and our own understanding of customers' preferences to challenge company plans, intervening if necessary to fulfil our duty to protect customers' interests, in line with all our statutory duties. The final decision on price controls is entrusted to Ofwat.

11. See section 2 of this document for discussion of standards for assurance of customer engagement.

12. See '[Collaborative customer research for PR24](#)'. We are continuing our joint work with CCW, companies and other stakeholders to develop and implement collaborative customer research for PR24, delivering against the consistency and comparability principle.

13. See section 2 of this document for discussion of standards for customer challenge.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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