

Testing for customers' views of business plans – for services and bills

Workshop one

26 July 2022

ofwat

CCW

The voice for water consumers
Llais defnyddwyr dŵr

Agenda

Time	Area
First hour	Introductions
	Outline of the requirement
	Snapshot: Observations from PR19
	What are the current considerations and challenges?
Second hour	What else do we need to consider?
	Where we see the experts adding value
	Timeline and outputs

NB – we have included links in this presentation, indicated by underlining.

Introductions

CCW
The voice for water consumers
Llais defnyddwyr dŵr

Ofwat



Outline of the requirement



Background to price reviews in the water industry

- Water companies are regulated through the price review – where Ofwat sets the price and service package that customers receive.
- Within this price setting process, water and sewerage companies need to be able to show that customers' views are reflected in their business plans (examples of business plans can be found here - Severn Trent Water, South Staffs Water).

Outline of the requirement



Where we want to be for PR24

- In Creating tomorrow, together Ofwat published proposals to improve the quality of customer engagement and use of customers' views, for the PR24 price review.
- This is also a priority for CCW and included in their objectives for the price review.
- CCW and Ofwat are working in partnership to redefine customer research in two key areas – how incentives rates^{*1} are calculated (this is currently in the field) and 'affordability and acceptability testing'^{*2}. Details of our progress and engagement with companies can be found here.
- Further information in relation to the requirements for customer engagement are included in Ofwat's draft methodology for the price review. See also the Affordability appendix.

^{*1}Incentive rates refer to Outcome Delivery Incentives (ODIs) - the financial consequences to water companies of delivering above or below their performance commitment levels.

^{*2}We are using 'affordability and acceptability' as shorthand for the research that tests customers' views of the service package and bills of each company's business plans.

Outline of the requirement

How were customers' views on the service package and cost tested previously?

- Customer views on the proposed service package and bills were researched by each of the water companies in the form of 'affordability' and 'acceptability testing' ahead of submission of business plans to Ofwat.
 - Examples include: Dŵr Cymru, SES Water, Thames Water, United Utilities.
- But, overall, there was inconsistency in how the research was undertaken by companies.
- And some research did not meet all of the principles of good engagement with customers.
- [Additionally, CCW undertook affordability and acceptability testing when Ofwat published draft determinations – see here.]

Outline of the requirement



What are our objectives now?

This project aims to establish a research approach that companies will use to explore their customers' views of the proposed service package and bills for PR24. We are aiming for a research approach that:

- is suitable for different water companies to test 'affordability' and 'acceptability'
- produces meaningful views and actionable findings, so that water companies understand how to adapt business plan proposals to increase acceptability and affordability and/or mitigate consumer concerns
- provides key measures that are comparable across water companies and between iterations of the research: acceptability of service proposals and affordability of bills
- is adaptable and suitable for household and non-household customers, and also for future bill-payers
- accommodates uncertainty about proposed bill levels, financial support for low-income households and the content of water company business plans.

Outline of the requirement



We aim for this project to deliver

- A research approach that each company will adopt as they develop their business plan, so that they understand their customer's views of the proposed service package and bills.
- An agreed research methodology and materials that will support comparisons between water companies on key measures of consumer views.
- A research approach that encompasses the principles for better engagement.

The methodology and materials are needed by the end September/early October to allow sufficient time for companies to test their plans.

In addition, we hope that the agreed approach is adaptable to allow CCW/Ofwat to use it for testing customers' views of PR24 draft determinations.

ccwater.org.uk

Snapshot: Observations from PR19



- Most water companies did multiple rounds of acceptability/affordability testing to develop and refine their business plans
- They used qualitative and quantitative approaches delivered face to face and online
- Sample: mostly household bill payers, smaller samples of future bill payers and non households. People in vulnerable groups, especially low income households were a key sub-group to understand.
- People were asked about the acceptability/affordability of the proposed bill change, and/or to the bill change and the more detailed plan, and bills were tested with and without forecast inflation
- They also collected attitudinal information towards themselves / the water industry to support analysis e.g. about shareholders and profit
- Water companies also asked about longer term investments and bill profiles, sometimes to 2030 and sometimes to 2050.

NB: We have gathered information from water companies about i) examples of good practice at PR19, ii) ideas for improvement iii) research underway. We can share these examples and our summary.

ccwater.org.uk

What are the considerations and challenges?



We've set out some initial thoughts on the challenges that need to be addressed during development of the research approach.

The issues are grouped, for ease, as follows:

- Context
- Use of the research
- Scope (method – 3 pages)
- Scope (customers)
- Inputs

What are the considerations and challenges?



Context

Strategic Priorities Statements for England and Wales outlines differences that may be needed in the research methodology for both nations – experts will need to consider the England and Wales dimensions throughout this exercise.

Current context of upward pressures on water bills – company spending on statutory requirements, particularly around the environmental services that companies provide. In PR19, bills reduced.

Current cost of living context – household budgets are under pressure, and high inflation

Risk of departure from PR19 – on method of research, style of results and what customers say. We will need to know what is driving differences and help stakeholders understand the reasons (e.g. inputs, method or context).

What are the considerations and challenges?



Use of the research

Business plan assessment - We need to make sure that the common research delivers evidence that can be meaningfully assessed as part of our review of plans. See [chapter 11 of the draft methodology](#). We also need to consider whether/what data we may ask companies to submit alongside their business plans. At PR19 this included a range of prescribed %s and £s. See '[App 4](#)' worksheet).

How to communicate qualitative research findings in a compelling way – so that these outputs are comparable across companies, readily understood by stakeholders and paths of action are clear

What are the considerations and challenges?

Scope – method (1)

How to get ‘meaningful’ views from people – considering the complexity of business plan information, uncertainty in future bills/household finances, and survey/qualitative formats.

The relationship and interaction between ‘acceptability’ and ‘affordability’ – considering engagement, cognition and any anchoring effects, and if there is a natural order to test these in.

Should the research be done separately - we typically discuss ‘affordability’ and ‘acceptability’ but we need to be open to the need for entirely different research exercises and underlying approaches.

How to define/add nuance to perceived affordability – for example how changes to bills affect welfare, and how being metered whether by choice or not affects this.

What are the considerations and challenges?

Scope – method (2)

Treatment of bills and inflation – e.g. what is easiest for people to respond to - bills in real or nominal terms, and use of average household bills or personal bills to base forecasts on, bill changes or total bill.

Definitions of acceptability – considering uninformed and informed responses, and what is most appropriate for the objectives of acceptability and affordability research

Informed / uninformed views – What do people need to know to reach a view on the business plan and the proposed bill? How to include the views of the 'average' water bill payer who knows little about their services and will react mostly to the bill when they get it.

Long-term and fairness – we expect companies to show that they have considered the impact of their plans on affordability now and in the long term (also fairness between current and future customers). We need to consider whether/how the common approach to affordability/acceptability testing can offer guidance on how companies should also test customers' views on affordability over the long term.

What are the considerations and challenges?



Scope – method (3)

Single water affordability scheme (new name for Single Social Tariff) - The PR24 draft methodology explains that we expect companies plans to cover two scenarios i) Single water affordability scheme (SWAS), ii) no SWAS. We need the 'affordability'/'acceptability' research to be able to test customers' views of the proposed bills in each scenario.*

Customer views on support offer for those struggling to pay (and requirements for support for cross-subsidy) - In the 'no SWAS' scenario, companies are expected to comply with existing requirements and guidance (see [page 120](#)). We need to consider whether the common approach includes this aspect of testing customer's views.

* In May 2021, CCW published recommendations from their [Independent review of water affordability](#) and a [one year on](#) update in July 2022. It recommended a 'single social tariff' which might replace schemes designed at company level to support people who struggle to afford their water bills.

What are the considerations and challenges?

Scope - customers

Which customers should be included in the research and how do we best engage with them - need to consider whether the approach seeks views and takes account of: all customers; future customers; the average customer; bill payers or non-bill payers; only those customers struggling to pay (or at risk of); the need for/value of customer segmentation.

Including future bill-payers in acceptability and affordability research - What is meaningful to ask them about given their different starting point to current water bill-payers.

Accommodating companies that offer different services – some people get water services from one company, and sewerage services from another and may not know this as they get one bill for both from the water company. How can the research get distinct views on services for each company? And how can one bill based on charges from two companies be assessed for affordability effectively?

Adapting research materials for non-households – what would help non-households to engage with research about business plans given their diverse needs and expectations of services.

What are the considerations and challenges?

Inputs

The research approach will need to accommodate uncertainty: around the level of bills; and the level of financial support available for low income households who struggle to pay their bills; content of business plans; longer term investment and bill changes.

Companies business plans are aspirational – so companies typically seek customers' views on comparative performance levels that may not be realised, potentially creating a falsely positive response from customers. We need to consider how we can get realistic business plan perspectives.

Current performance / comparative performance - consider whether 'affordability'/'acceptability' research is set in the context of each company's current performance?

Single water affordability scheme - We are very likely to need to make an assumption about the nature of the SWAS, so that companies can use a common assumption as they use the common approach 'affordability'/'acceptability' research.

Discussion: What else do we need to consider?



To gather experts' first impressions of what we've outlined and to see if there are any wider implications that they have identified.

Where we see the consultants adding value

Our experts in qual research (Emma), quant research (Nick), and comms design (Michael) will collaborate with us to help develop a common research methodology. This will include:

Activities

- Applying your skills, expertise and experience to collaborate in a rapid, focussed, creative way.
- Reaching a view on the most suitable research approach for companies to test their business plans with customers, particularly around acceptability and affordability.
- Conducting desk-research or other tasks as needed to inform the development of thinking on the research approach (in between workshops and meetings).
- Helping to develop research materials and guidance to support the use of the methodology.
- Possibly attend (virtual) water industry steering group meetings to help explain or present thinking about methodology developments.

Reporting

- No formal, written reporting required. But we will require a note explaining the rationale for the approach we have decided to take.

Timeline and outputs

As a group, we are taking an agile approach over a short time frame to generate ideas, then produce and deliver material. Suggested timetable:

Type	Date	Who	Why
Workshop 1	26 July	Everyone	To explain the challenge
Workshop 2	27 July	Everyone	To determine our approach and plan
Reflection	c. 28 – 29 July	Experts only	Reflection and challenge to CCW/Ofwat
Task meetings	July – Aug	TBC	To focus on specific areas of challenge
Production	Sept (early)	Experts + CCW/Ofwat	Draft materials for testing
Testing	Sept (early)	Yonder/Savanta	Test the draft materials
Reporting	Sept (late)	Experts + CCW/Ofwat	Testing materials finalised; submit a note on rationale.