

## **Note of PR24 collaborative customer research steering group meeting**

**10 October 2022**

### **1. Actions from last meeting**

The steering group's action log was shared prior to the meeting. Two outstanding actions from previous meetings were discussed.

### **2. ODI rates research: modelling and mapping**

#### **2.1 ODI rates research update**

Ofwat updated on the fieldwork for the household and non-household surveys. The household survey has successfully completed. Steering group members were informed that the main sample and booster sample targets had been met and there were no quota shortfalls. The non-household survey is close to completion with around 85 interviews outstanding.

A household dataset has been established, which is anonymised and weighted. Verbatim responses have been backcoded (to a coding frame), with any disclosive elements removed.

**Action:** Ofwat to share the household dataset with companies this week.

Econometric modelling has started on the household dataset and analysis on the non-household data will follow shortly. This will produce a set of estimates. Professor Stefane Hess will peer review this work.

A question was asked about the granularity of analysis which the modelling would provide. Ofwat explained that estimates will be provided for each of the 26 incidents at company level, along with estimates at an aggregated level (eg at national levels for England, Wales and combined). Companies will be provided with a report accompanying the modelling, detailing a full account of the sampling methodology and approach (including anonymisation, weighting etc), reporting of survey findings, as well as the survey materials. Stata code will be provided to enable companies to conduct their own analysis.

**Action:** Ofwat to share reports/information as described above.

#### **2.2 Mapping**

Ofwat gave an update on the mapping component of the work, which entails setting the weights to be placed on respective values, to determine the ODI rates for some of the PR24 common performance commitments. Weights are being established via existing evidence and/or expert judgement. For more complex performance commitments there would be various weights to combine. A question was asked about whether weighting would be set at a national or company level. Ofwat advised that this will be determined after assessing the initial results.

Ofwat informed steering group members that additional data may needed be requested from companies to assist with this. Mindful of any burden that this could place on companies, requests will only be made on an absolute need basis. Any data requests will be made towards the end of October or early November.

Ofwat then provided an update on progress on each of the performance commitments and an indicative timeline for the final analysis of survey findings, which is scheduled for November 2022. A question was asked about the risks associated with unexpected results in the findings due to adopting a new method. Ofwat emphasised that the methodology and results would be reviewed very carefully. If outliers are identified, Ofwat will consider the implications.

### **3. Affordability and acceptability testing**

#### **3.1 Recap on 4 October meeting with companies**

CCW gave an overview of the meeting held with companies on Tuesday 4 October.

CCW explained that we are proposing to issue guidance, with prescription in some areas, which companies should adopt/follow when testing the affordability and acceptability of their plans with household and non-household customers.

Current thinking is that business plans must be tested at least once based on the guidance. Should there be a material change in a business plan, this will require further testing with customers. It is important that the final version of the business plan is tested with company's customers. CCW/Ofwat are considering the criteria required for re-testing. We expect the guidance to address this question.

At present, a mixed method approach is proposed. This will include qualitative research with customers that will focus on exploring views and opinions on the preferred business plan versus the least cost version, including phasing of investment. This will be followed by a survey of customers, with quantitative research identifying views on the affordability and acceptability of the revised business plan. CCW/Ofwat are also considering exploring the views on the phasing of investment here too.

The proposed sampling approach for the qualitative and quantitative aspects of the research were also outlined. This includes using customer lists for the sampling frame to enable real customer bill profiles to be used with participants in the research.

There were no significant objections from companies to the overall proposed approach.

There was a question from a steering group member about any requirement for Ofwat/CCW to review research materials. Ofwat/CCW advised that this is being considered, alongside exploring the potential role of local challenge arrangements as part of a quality assurance process.

Another question focused on whether there was a threshold to meet on affordability and acceptability findings. Current thinking is that there will not be a threshold for companies to meet. Ofwat/CCW appreciate that the current economic climate is volatile for measuring issues, such as affordability. Instead, Ofwat/CCW expects that the primary research, conducted as part of the testing required by Ofwat/CCW, will be complemented with other primary research a company may wish to conduct. This should be triangulated alongside objective, secondary sources of evidence, to build a comprehensive picture of customers' views. On the point of customers' overall responses to the testing, another steering group member asked a question about what would happen if the findings indicated that customers did not think a company's plan was good enough. Ofwat responded by stating that most companies will be delivering services which have been mandated by the UK and Welsh Governments. If the research indicates that customers find business plans unaffordable or

unacceptable, this will provide evidence for individual companies to address and then Ofwat to consider.

A question was asked about the approach to testing affordability over the longer term. CCW/Ofwat are proposing that this will be addressed in the guidance for qualitative research. CCW/Ofwat are also considering whether the quantitative research should include questions on phasing. Ofwat/CCW acknowledged that many companies will have been thinking about testing this in their own research and invited companies to share examples of effective questions on phasing long term investment.

**Action:** companies are invited to share examples of research into customers' views of the phasing of investments.

CCW also emphasised the challenges of conducting affordability research with customers in a high inflationary, uncertain economic outlook.

**Action:** companies are invited to share examples of research that includes treatment of inflation eg bills with and without inflation.

A steering group member asked about expectations for the PR24 business plan data tables in this area. Ofwat is continuing to develop the proposed approach for affordability within the data tables.

A company suggested that it might be sensible for Ofwat/CCW to consult the sector through smaller meetings, at short notice, to discuss points related to the guidance for affordability and acceptability testing.

**Action:** CCW/Ofwat to arrange smaller meetings, as needed.

### 3.2 Single social tariff

Ofwat acknowledged that exploring social tariffs in affordability and acceptability testing will be challenging. The UK and Welsh Governments have yet to issue their consultations on social tariffs and it is not known what form a Single Social Tariff might take. Consequently, thinking around this is based on taking a pragmatic approach. This could involve splitting the samples in the quantitative and qualitative research to include and exclude the single social tariff in questions. Ofwat emphasised that participants in the research will not be asked to comment on the benefits/disbenefits of a single social tariff. Nor would the research seek to identify whether current recipients of company social tariff schemes will be eligible for the proposed single social tariff scheme. There remains an expectation that changes to company schemes will be tested with customers in separate research.

A question was asked from a company which is considering changing their existing social tariff scheme. If that occurred, would the expectation be to base the affordability and acceptability testing research on the new or existing scheme? CCW/Ofwat reflected that this would require further thinking due to the uncertainty of the policy. Ofwat/CCW will aim to address this in the guidance.

A steering group member raised the point about the absence of detail required to test the Single social tariff with customers and whether testing should be based on existing schemes. Acknowledging this challenge, Ofwat/CCW set out that we are developing a research approach based on what is known at present.

#### 4. Next steps

Steering group members were reminded about the Ofwat consultation on [charging innovation to support availability](#), which closes on 3 November. Outputs from the ODI rates research will be circulated to companies as described earlier, staying with the household dataset this week.

Timing for Ofwat/CCW sharing guidance on the standardised approach to affordability and acceptability testing is still being considered. Companies indicated they would welcome an opportunity to see a draft version of the guidance.

Members were reminded that the publication of the PR24 final methodology will be in December 2022.

The next steering group meeting will be on 14 November 2022.