

Dear David Black and Kay Greenbank

PR24 and beyond: Reflecting customer preferences in future price reviews – a discussion paper

Sustainability First is an independent think tank and charity focused on promoting economic, social and environmental wellbeing in public utilities including the water sector.

We welcome Ofwat’s discussion paper on how best to reflect customer preferences in future price reviews. In particular, the recognition of the long lead times required for customer engagement and starting to work on this area now alongside the PR24 methodology development.

In May 2020 Sustainability First held a workshop with interested parties including Customer Challenge Group chairs and companies involved in the PR19 process for water, and stakeholders involved in the RIIO-2 enhanced engagement activity for transmission and gas distribution¹, to discuss the engagement lessons learned alongside learning from other sectors. In November 2020 as part of our Fair for the Future programme, we built on this discussion with a further roundtable to explore potential engagement models for the future and how these linked to the challenges faced by essential services today and longer-term. Our response to this paper builds on the feedback from those two events alongside Sustainability First Associates’ own experiences having been involved with the RIIO-1 Stakeholder Engagement Incentive panel², RIIO-2 central Challenge Group, and the in-company independent Customer Challenge Groups (CCGs) and Customer Engagement (CEG) and User Groups (UGs).

We understand this is genuinely a discussion document and therefore make our comments on that basis. We agree with many of the arguments and lessons learned put forward in this paper but believe ‘the discussion’ **would benefit from a much broader framing** to ensure that engagement delivers on Ofwat’s strategic goals and opportunities are not missed.

We make a few general comments before answering the questions requested:

- **The role of engagement:** In the opening paragraph of the Executive summary of the discussion paper Ofwat says “it is vital that water companies understand their customers’ needs and preferences and reflect these in their actions”. This narrative has been used for two price control cycles and would benefit from being updated. Requiring companies to engage is no longer just about regulation being a proxy for competition in the market and lack of customer choice/responding to customer views. It is key to essential services’ efficient operation and the delivery of wider public value. **Consumers and businesses are increasingly needed to be part of the solution** – whether reducing water use, co-developing catchment management schemes, embracing new technology, or shifting other behaviours. They are **critical for the delivery of societal goals** such as sustainability, reliability of

¹ [enhanced engagement guidance final.pdf \(ofgem.gov.uk\)](#)

² [Stakeholder Engagement Panel 2019-20 | Ofgem](#)

service, security, and lower costs overall. **Partnership working**, including across sectors and at a grassroots level can help address increasingly complex whole system problems such as affordability, adaptation and community resilience more effectively. As Sir John Armitt, the Chair of the National Infrastructure reminds: “To be resilient, we need to move beyond managing individual risks and assets, to thinking about the system as a whole and how the services we all rely on can be sustained and disruptions minimised. ... To achieve this, we need to think more about the interdependencies between different sectors, and do more to manage the cross cutting challenges. We should also consider how to better take into account public expectations of infrastructure services – we are all infrastructure users after all.”³ Partnership working, collaboration and wider day to day company engagement has an important role to play which is not reflected in the narrative in this discussion paper. There is also a valuable role for companies in helping people deal with change.

- **Engagement and business plans:** In designing its price control methodology, we’d encourage Ofwat to therefore **separate out the engagement it needs to *inform its business plan decision from the engagement activity and the behaviour it would like to see from companies in the future in order to *deliver the plan and Ofwat’s strategic goals for the sector****, including delivering greater public value, and meeting the long-term challenges ahead. These are separate outcomes which will require separate approaches to deliver. One is about providing a robust

transparent evidence base, including customer, consumer, citizen insight among other information to inform a regulatory decision. The other is about how engagement is used during the next AMP to maximize societal value and how companies engage with the right people at the right time to efficiently deliver their business plan commitments and adapt to changing whole society needs. This discussion paper appears to be mostly about the former. A focus is also needed on the latter. We would be happy to discuss this further.

- **Tiered engagement approach** – we support the need for greater centrally led research to inform the business plans evidence bases and to support Ofwat in its final determination. We build on this to highlight on p.13 the need for a tiered strategic collaborative engagement approach including: national deliberative discussions on key issues such as fairness – who pays for affordability, climate change adaptation and mitigation, attitudes towards cross subsidy and cost-reflectivity and resilience; company and Ofwat led engagement at a national and regional level; and the need for bespoke community level engagement with different assurance approaches for each.
- **Definitions:** We encourage Ofwat to define key terms such as ‘**customer, consumer, citizen, societal/public value, public interest**’ etc. to avoid confusion. In this discussion paper it seems the regulator often uses ‘customer’ as an umbrella term for any relevant stakeholder. If this is the case it needs to be stated, if not

³https://nic.org.uk/app/uploads/NIC_Resilience_Scoping_Report_September_2019-Final.pdf

it needs to be clarified. Definitions are not semantics, they are important. They impact Ofwat's and other organisations operating in the water sector's vires, how they interpret their responsibilities and the activity they then undertake. They impact what research is undertaken by companies and policy makers, with whom, how and on what issues, and how that is weighted and interpreted. This leads to potentially very different policy outcomes and company decisions on the same issues. Peter Lemon for example, who leads engagement at Sydney Water highlights that they found if you engage the same people as customers and then as citizens on the same issues you will get different answers to the questions posed. People can and do wear many hats and both viewpoints need to be considered.

- **Stakeholder requirements and the public interest:** As essential service providers it is critical that water companies understand not just their customer needs but also wider stakeholder requirements, including the views of citizens and the public interest (social, environmental, economic considerations). We therefore particularly welcome the goal to 'Broaden Value'. However, we believe the public interest should be central to Ofwat's engagement narrative not a side goal hidden alongside the proportionality of engagement activity for the business plan.
- **Regulatory engagement activity:** Linked to the latter, the opening paragraph of this discussion paper also states, as a regulator "we also need to understand customer views and reflect these in our decisions". This is very welcome and there will

be great **value in Ofwat understanding customer views before setting its price control methodology** to inform its priorities and approach, including in the setting of common performance commitments. But similarly to companies and linked to our point above, it is essential that the regulator considers not just customer needs in its decision making but wider societal value when making its decisions. The **regulator will need to be able demonstrate how it has weighted the different needs and views** of different interests: current versus future customers, minority customer segments versus average customer impact, customer views versus citizen/collective goals in its decision making, and all voices need to be considered. To support this we propose:

- a. Co-developing common social return on investment tools with industry including how stakeholder evidence including customer views feeds into those.
- b. Ofwat undertaking its own research to inform its 'value' and 'discretionary judgements' if its decisions on the business plan are to have legitimacy.
- c. Co-develop a common triangulation framework given the lack of agreement on what good practice is – this could help to provide transparency and some common understanding as to how different interests are weighted. In addition, the regulator must
- d. Consider how engagement can help to deliver whole-systems cross sector value.

- **Comparisons with RIIO-2:** The description of the enhanced engagement process for RIIO-2 process for gas distribution is misleading. Ofwat’s document states – “In distribution, each company has had to establish a customer engagement group (or ‘CEG’). The role of these groups has been to provide challenge on whether the company’s business plan addresses the needs and preferences of its consumers”. This implies that the role was similar to the Customer Challenge Groups. In practice, engagement was a small part of the role of the CEG. Yes, the groups challenged the company’s approach to engagement, and they considered how the engagement findings informed the business plans but most of their role was focused on scrutinising the quality of the business plan through in Ofgem’s words “bringing new expertise, insights, skills and challenge”. In particular, Ofgem explicitly stated that the groups had a role in “supporting Ofgem’s business plan assessment” by ‘being close to the company, but at arms-length’. These groups were expected to be well placed to get behind ‘the sales pitch’ on engagement but also to address wider information asymmetries between the regulator and the business⁴.

This is an important distinction as the CEGs have been *demonstrably* successful in achieving this role, arguably saving regulatory time and resource while delivering much higher quality plans in the interests of customers and wider stakeholders. A particular **value of these in-company independent groups, if well designed, is also delivering wider culture change and in-period**

timely improvements. The Groups could be a **useful tool in the regulatory toolbox not only helping to address information asymmetries during the business plan development process but also by monitoring and providing transparency** on areas that sit outside of the current regulatory reporting framework but matter to stakeholders e.g. purposeful business, progress on consumer vulnerability strategies, bespoke commitments. If used well they could strengthen the consumer voice in decision making, adding to the advocacy power of CCW, Citizens Advice and more recently National Energy Action against more powerful company interests. This is something for Ofwat to consider in the design of its PR24 methodology.

- **Evaluation:** We are mindful that **Ofwat does not appear to have carried out an impact assessment of the CCGs** (as opposed to a ‘lessons learned’ exercise), nor did it require the CCGs or companies to monitor or capture impact. In addition, Ofwat did not attend the CCGs nor monitor their progress or seek feedback during PR19. The Customer Challenge Logs while mentioned in this paper were never intended to record all impacts (nor do they) and many Groups did not use them for this purpose. The regulator did not follow up with the Groups on their submissions and arguably therefore has a loose grasp on the impact of the Groups (particularly in areas such as cultural change) and should be conscious of this in making its decisions else it risks ‘throwing the baby out with the bathwater’.

⁴ [enhanced engagement guidance final.pdf \(ofgem.gov.uk\)](#)

- **Engagement opportunities** – the world of digital participation is rapidly changing providing new opportunities for both regulators and companies. Ofwat is right to consider how it keeps abreast of these developments and ensures that opportunities are embraced. As a minimum the procurement of centrally-led research needs to reflect innovative approaches where they can add value, and the steering group should include independent research methodology and stakeholder engagement experts with live up to date knowledge. This is really important as none of the key water sector players despite their commissioning experience have a track record of using particularly progressive engagement or new technologies themselves.

We answer the requested questions below.

Q1: Do you agree with the goals we have proposed for customer engagement at future price reviews? If not, why not?

These are useful guiding *principles* for what the discussion paper initially describes as “how **customer evidence** might be used to inform future price reviews” but not appropriate outcomes for engagement as a whole for PR24 and future price controls. We’d strongly encourage Ofwat to make this distinction.

⁵ Four water companies appealed to the CMA against their PR19 final determination. To varying degrees all argued that Ofwat had ignored, misinterpreted or given insufficient weight to consumer views in its final determination. Ofwat says it “did override” customer research in some cases. This is for three main reasons: to better align the decision with customer interests and preferences; as it thought the research that underpinned the company’s decision was poor quality; or as it had

Q2: Are there any other goals which you think we should have for customer engagement at future price reviews?

We think your overarching stakeholder engagement aims for PR24 (beyond just customer evidence) should be as follows. We build on the goals proposed in the discussion paper in the second bullet below:

- Strengthen the voice of consumers and the public interest in the price review process – this includes use of robust stakeholder evidence that reflects preferences and all voices in
 - a) The *design* of the price control methodology
 - b) The *development* of company business plans
 - c) The *decisions* made by Ofwat i.e. what values it applies when making its ‘discretionary’ decisions⁵.
 - d) The in-period decision making by regulators and companies.
- Improve the quality and effectiveness of stakeholder evidence that informs business plan decisions– to address issues raised in Ofwat’s discussion paper. Building on Ofwat’s proposed goals (principles) we make the following comments/ suggestions:

additional evidence that was not available to the company’s stakeholders including the CCG. Also, that ultimately decisions are the product of ‘regulatory discretion’. Ofwat needs to ensure transparency around the methodologies, values, assumptions and trade-offs informing ‘discretionary’ decisions. [Sustainability First - Final 24.06.2020.pdf \(citizensadvice.org.uk\)](#)

- *Well-targeted research and engagement* – For example, clearly articulating research aims, carrying out a gap analysis to understand what is already known, carefully considering the research questions, identifying those groups impacted and interested in the decisions and those best placed to answer the questions, and then considering the best engagement approaches given the audiences. There is feedback that some companies have been poor at planning research, jumping straight to the process, before clearly articulating research goals. This can waste money and leads to poor quality engagement.
- *Proportionate and value for money* – for the reasons Ofwat outlined. However, importantly we note, proportionality is subjective and what is ‘proportionate’ should be agreed up front. It will be important that sample sizes and engagement reach is large enough to be representative and capture minority voices in a statistically significant way (a lesson learned from Water Resources South East). It also needs to be proportionate in the context of the importance of this essential service being provided and the billions of pounds involved in business plan decisions. Ofwat should consider whole-picture value. For example, the discussion paper says, “a number of groups said they would have appreciated more contact time with us throughout the process, although it would have been challenging for us to provide much more contact time given there were 17 groups in operation.” If these 17 groups had been given four hours each that would have been around ten days work for someone at Ofwat. The resource involved in that Ofwat

led engagement relative to the potential benefit, the time otherwise spent on external consultancy to provide independent views, responding to CMA related CCG issues and the trust and legitimacy that could have been built, it arguably would have been a proportionate and highly effective use of Ofwat’s time.

The regulator needs to ensure it properly understands and values engagement and that it is appropriately resources it in its PR24 approach.

- *Collaborative* – for the reasons outlined. Collaboration should exist in five areas in particular:
 - a) Sharing existing insight and learning e.g. on horizon scanning, or consumer vulnerability
 - b) Jointly commissioning research where there are shared challenges
 - c) Jointly delivering engagement to minimise the costs and also burden on resource strapped stakeholders who are requested to engage – especially the case where companies share customers and stakeholders.
 - d) Cross-sector collaboration to unlock wider public value and deliver on Ofwat’s Strategy.

- e) Jointly agreeing social return on investment and sustainability metrics and approaches to enable comparability between companies.

The competitive element in PR19 was positive at encouraging innovation but did not always encourage the most constructive behaviours. Innovative approaches were also not always better than standard practice in terms of the outcomes they delivered. Ofwat nonetheless needs to consider how it will encourage innovation in engagement in its approach⁶. Joint company working risks defaulting to the lowest common denominator. In addition, it raises questions of how it ensures all companies pull their weight. Learning from Water Resources South East indicates that some companies put in all the effort and others contribute very little and wait for the outputs. It is not always the larger companies pulling their weight as might be expected.

- o *Inclusive/recognise preferences* - for the reasons outlined. In addition to recognising differences between the regions and more well recognised sub-sets of consumers, it is important for Ofwat and companies to get behind average performance levels in their engagement

⁶ In PR19 Ofwat introduced competitive comparative element into the price control methodology with companies categorized into four groups: exceptional, fast-track, slow-track and significant scrutiny. This had benefits in terms of driving higher standards and supporting innovation. However, it discouraged companies from working collaboratively, sharing best practice engagement and learning, particularly in a timely way. It also acted as a barrier to Customer Challenge Groups sharing learning and benchmarking company activities due to commercial sensitivities. It arguably also encouraged companies to carry out innovation for innovation's sake rather than thinking strategically about where new approaches could best deliver value. Later in the process Ofwat gave a verbal signal that it would look favourably on companies that showed leadership on engagement and shared research findings but this was too late in the day to have any real impact⁶. The same competitive incentive did not exist in the RIIO-2 methodology for gas distribution and transmission but sharing of

approach. e.g. a company can be top of the league tables in terms of interruptions, but still have pockets of customers who are consistently receiving a poor services. It is also worth noting the strength of the 'outcomes' approach in PR19. Common performance commitments when they are informed by customer and citizen evidence (not Ofwat making assumptions about what matters to consumers) could reflect common priorities across England and Wales. Bespoke performance commitments have been and are really valuable to enable companies to respond to local needs and priorities including to focus on areas where that company in particular needs to improve. Where two or three companies may share a priority (but not all), there could still be common bespoke outputs. Ofgem has adopted this approach in RIIO-2 with for example a common street-works performance commitment for SGN and UKPN who are both operating in London given the public interest value.

- o *Good quality* – including well-designed and delivered. We are surprised this is not included. In PR19 for water Ofwat

good practice and learning was also not forthcoming. There was an inbuilt desire by companies to want to be the best which discouraged in-sector sharing and cooperation (along with practical challenges of working with multiple parties). Chairs shared insights on company progress collectively with Ofgem and the Challenge Group. This encouraged a greater degree of sharing but it was still unclear what level of detail was appropriate to share on individual approaches. We encourage Ofwat to set a clear expectation that that companies work together to deliver engagement and share learning, especially where they have shared customers, stakeholders or common challenges. They may want to incentivize this in some way to motivate those more prone to taking a back seat on engagement.

said companies would not be fast-tracked if they did not carry out high-quality engagement. In RII0-2 for energy, companies were expected to deliver high-quality engagement else they risked a penalty. These regulatory signals sent a clear message that engagement was important and were powerful in encouraging the right company behaviour. Ofwat should include a similar signal for PR24. This should focus on both the quality of business plan engagement and the quality of ongoing in-period engagement. This is a fundamental component.

- *Transparent and accountable*– for the reasons outlined. In particular it is worth flagging that a number of water companies struggled with demonstrating the ‘golden thread’ – the link between stakeholder engagement and decisions made. The CMA appeals process highlighted there was not a common understanding of what good practice triangulation looks like between Ofwat and CCW⁷. To improve transparency, we recommend Ofwat and relevant stakeholders co-create a transparent triangulation process which clearly demonstrates how different interests are weighted – current versus future consumers, individual customers versus societal needs, costs of investment versus risk of non-investment and both the monetary and non-monetary considerations. In addition, a key goal should be to **provide greater in-period transparency** on key areas that matter to stakeholders, that sit outside current regulatory reporting arrangements. This is a role in-company groups could play. E.g. purposeful business, environmental performance (which currently lacks transparency especially for water only

companies but not only), business as usual engagement, progress on consumer vulnerability strategies.

- *Improve water companies’ business as usual engagement* to enable the more efficient delivery of business plans and so that in-period companies adapt and are accountable to changing consumer/community needs. This is particularly important given how important engagement is to deliver Ofwat’s strategic goals for the sector. That companies should own the relationship with their consumers and stakeholders goes without saying. **Centralised research to inform the business plans does not detract from that.** Companies should be carrying out ongoing engagement as business as usual with customers and wider stakeholders outside of the business planning process.
- *Help unlock untapped public value through improved partnership working and information sharing.* This is especially important in relation to ensuring resilience, delivering environmental goals and affordability. Such cross-sector approaches including transport, energy, financial services, housing, planning and telecommunications sectors can be more complex and time consuming and there may not be sufficient commercial incentive for companies to undertake them anyway. Regulators should ensure they remove barriers to companies collaborating and consider enabling utilities to get credit in some way for complex joint working that delivers demonstrable value and co-benefits that go beyond industry good practice and their own activities.

⁷ [Sustainability First - Final 24.06.2020.pdf \(citizensadvice.org.uk\)](#)

For example, the two-way interdependencies between the water and energy sectors are recognised. Water companies use energy for pumping and energy companies use water for cooling. New approaches to increase resource capacity, meet net zero (i.e. hydrogen) are often water hungry. When either energy or water fail, it has significant wider societal impacts. According to Dr Emily Cox⁸ the impact of interruptions in essential services on other sectors appears to be relatively understudied, particularly regarding shortages of labour and skills, which could be caused by disruption to transport systems, healthcare and education. She highlights that as systems are increasingly coupled there could be major tipping points should sectors such as water or telecoms run out of back-up power and cease to operate. There is a growing acceptance that a holistic or 'system of systems' approach to resilience will be important. Failures in resilience don't respect operational, sector or institutional boundaries. Without a coherent cross sector approach, resilience can be undermined by the weakest link in the chain and value for money may be eroded. This poses a question for existing institutional arrangements that were largely forged before resilience challenges became an issue and makes engagement and collaboration particularly important.

- *Improve legitimacy and trust* in both the regulatory decision-making process and water companies. Ofwat's strategy explicitly calls for businesses to 'seize' opportunities 'to regain public trust'. In addition, ongoing stakeholder engagement is one of the key foundations of Sustainability First's recommendations for

companies that want to develop a 'Sustainable Licence to Operate' and become purposeful businesses⁹. Citizens Advice has echoed this and highlights "Consumer engagement is fundamentally about enabling consumers to influence how services are delivered and fostering consumers' trust in the legitimacy of the decisions a company makes. This sense of trust and legitimacy, in turn, contributes to consumers granting a company the 'social license to operate'. Companies therefore need to design their end-consumer engagement plans in ways that build a mutually beneficial relationship between consumers and companies¹⁰."

There may also be a role engagement can play to:

- *Improve the quality of business plans so that they are closer to right first time* – as noted, this was a key aim of Ofgem's RIIO-2 enhanced engagement and has generally worked very well. Given the sums of money involved, and the resource required by the regulator to follow up on poor quality plans this could be especially useful.

3. Do you agree with the principle that in areas that are of common concern to all customers within a nation, evidence of customers' preferences should be generated in a consistent manner such that results are comparable? If so, why? If not, why not?

We support the need for more centrally-led engagement which is consistently delivered and can enable comparability. We outline in

⁸ <https://ukerc.ac.uk/publications/the-impacts-of-energy-disruptions-on-society/>

⁹ [Developing and Embedding a Sustainable Licence to Operate and a Purposeful Business Approach: A 'How-to' Guide for Purposeful Utility Companies](#)

¹⁰ [Strengthening the Consumer Voice in Energy Network Company Price Controls \(citizensadvice.org.uk\)](https://citizensadvice.org.uk)

question 4 who we think should lead engagement on what issues and at what level.

As a first step Ofwat, CCW and water companies should share relevant research and insight on key topics to understand what is known about customer priorities and prevent reinventing the wheel on topics which are well rehearsed.

Then Ofwat should lead research where there are gaps in understanding about common concerns and where attitudes may have changed. Where differences in priorities are identified between regions or types of customers, if these are shared by a number of companies but not all, common research could still be applied with a smaller group of companies. Where an issue is specific to only one company, the company should carry out its own research to explore how best to address this and develop a bespoke performance commitment as appropriate with its own stakeholders. This could be overseen by the CCGs.

In addition to the benefits mentioned, we highlight the following advantages:

- Ofwat led engagement to identify priorities and set common performance commitments could ensure a basic common level of service countering concerns about 'postcode lottery' of service. There could be bespoke standards set beyond these, driven by regional or company differences or local needs. For each of these differences there would then be a clear rationale and story to tell linked to the additional need or company difference.
- We agree, it should be more cost-effective. In addition, a number of companies arguably lack the expertise and experience to procure good quality engagement from market providers. This

has led to poorly targeted and low-quality engagement in some instances that is not particularly good value for money. If the approach is well designed, these procurement problems should be addressed, and less experienced companies can learn from what a good practice approach might look like.

- It is arguably fairer for smaller water companies with less resource and would be less onerous for national stakeholder groups to engage. But a reminder that effective stakeholder engagement, not just customer research needs to be built into this process (it is noticeable by its lack of mentions in this paper).
- Good quality deliberative research is expensive and we would argue an area of weakness for many companies during PR19. While we've seen some good practice, we've also seen complex discussions crammed into half day slots with poor framing information, no external viewpoints and uninspiring support materials. A central approach should deliver cost efficiencies but is also a good opportunity to enable better quality deliberative work to be undertaken to help really get under the skin of some of the more complex issues that are important to customers and citizens. e.g. Citizens Assembly type approaches, or mini parliaments at a regional level.
- When customers are currently consulted via willingness to pay, business option testing quantitative surveys and acceptability testing, they are often taking a decision based on costs and options suggested by the company which later are changed by the regulator – arguably raising questions about the value of the engagement in first place. Central engagement with Ofwat involved hopefully means this can be addressed to some extent.
- It ensures cross-regional and cross-sectoral interdependencies which need to be considered e.g such as decisions on resilience,

are consistently factored into research; water sourced from one area may impact service levels in another or considers critical interdependencies between energy and water. Ofwat should consider where there are interdependencies.

- Importantly, if well-designed the regulator should have greater confidence in findings of the research. In particular, to identify genuine differences in attitudes and needs including towards solutions, cost, impact and risk. This should result in final business plans that more appropriately reflect the balance of different customer, citizen, regional and wider public benefit interests.
- If well-designed it could provide greater transparency and legitimacy. If poorly designed or the regulator puts insufficient resource into managing engagement, it could have the opposite impact.

4. If we make use of collaborative nationwide research in future price reviews:

a) Which aspects of business plans do you think should fall within the scope of this research?

Government-led engagement

There are some key national public debates which are needed to inform regulatory frameworks if they are to have legitimacy. In the absence of government taking a lead in these areas the regulator should consider doing research, preferably jointly with other regulators.

- Fairness - who pays debates (tax, bills, companies) for affordability support, climate change adaptation and mitigation and net zero initiatives
- Explore attitudes towards cost-reflectivity, subsidies given different needs of different regions e.g. in relation to flooding.
- Resilience – understand public attitudes towards trade-offs, risk, speed of investment and cross subsidization. It may be appropriate to do this with the National Infrastructure Commission.

In the case of affordability support it remains to be seen if CCW's review fully gets to grips with these important but tricky issues¹¹.

Ofwat led research:

To understand:

- **Household and business customer/citizen priorities** – identify differences between segments/regions/between citizens and customers/current needs and future considerations – it will be important that sample sizes are big enough to ensure minority views are statistically significant and can be identified. This should build on existing available research rather than duplicate where possible though allowing for changing customer attitudes.
- **Common performance outcomes, measures, incentives and targets** – while some areas may be particularly appropriate for expert engagement, there remains a role for customer research.

¹¹ [CCW Affordability Review | CCW \(ccwater.org.uk\)](https://www.ccwater.org.uk)

- **Minimum protections in case of problems**, accessibility, vulnerability and redress/compensation for poor service
- **Cross cutting core price control methodology decisions** e.g. attitudes towards incentives and how costs are passed on.
- **Co-develop a triangulation framework informed by customer and citizen engagement to support how decisions are made on trade-offs - values/ethics** – to support transparent regulatory decision making.

Company-led collaboration with Ofwat/steering group oversight

Within the water sector and potentially other parties on shared challenges.

- Willingness to pay/business options testing common approach.
- Acceptability testing common approach
- Engagement gap analysis on key areas - sharing of current insight and learning to identify what currently know and don't know/need to check e.g. on customer priorities, consumer vulnerability, customer service
- Joint commissioning of research: horizon scanning and scenario analysis, sustainability metrics, where there are joint challenges.
- Regional level engagement on regional challenges e.g. water resources with greater focus on joint proactive communications.

In addition, cross-sector company research to identify resilience interdependencies between water, energy, broadband and transport,

housing and planning and importantly to agree the social return on Investment methodology to inform business case development.

Individual company led research

- Bespoke commitments e.g. To reflect areas of difference identified by central research; where poor performance and a focus is needed to drive improvements; to reflect local issues and *opportunities*; create customer services that delight i.e. go beyond expected 'hygiene' service.
- To 'co-develop and in some instances co-deliver approaches: PR24 ongoing engagement Strategy, the Net Zero Action Plans, Consumer Vulnerability Strategy (beyond minimum standards set by Ofwat informed by research), company purposeful business approach, and community resilience strategies again beyond any minimum standards set.
- Behaviour change campaigns and BAU engagement with customers and communities.

See Figure 1 below for our proposed approach to engagement and assurance. We are happy to discuss this further.

A tiered collaborative engagement approach

- Household & business customer/citizen priorities – identify differences between segments/regions/between citizens and customers/values/future users
- To set common performance outcomes, measures, targets and incentives
- Minimum protections in case of problems, accessibility, vulnerability & redress/compensation
- Core price control methodology decisions e.g. company incentives and how costs are passed on
- Co-develop a triangulation framework to ensure transparency on trade-offs and 'discretionary' decisions made.

Advisory Group or collaborative working group - membership CCW, Water UK, independent research & engagement experts, meetings in the open.

Nations or regions can have different needs/governance structures and / policy contexts. Ofwat should issue a call for evidence as to where regional or local led decision making would be more appropriate. e.g. Wales may be better suited to direct negotiation/negotiated settlement type approach. Water resources is already being organized at a regional level. But other cities or regions may require different approaches e.g. where Local Enterprise Partnerships, smart cities, net zero goals.

Assurance : If negotiated settlement - regulator/statutory watchdog oversight If **regional led research** – nominated member from –in - company level independent groups (like WRSE model in water)

Ofwat or WaterUK call for evidence to identify:

- Areas where companies could deliver additional societal value if regulatory frameworks changed/could operate 'outside' of the price control process e.g. partnerships, direct negotiation approaches.



- National debates:**
- Fairness - who pays debates (tax, bills, companies) for affordability support, decarbonization and adaptation
 - Explore attitudes towards cost-reflectivity, subsidies
 - Resilience –focus on trade-offs, risk, speed investment and cross subsidization
 - National common messaging – climate change/resilience

UKRN – public purpose metrics/resilience best practice/Data principles

- In sector** (on shared challenges could also be with other parties e.g. Ofwat/Defra/others)
- Share engagement learning on key areas e.g. consumer vulnerability, customer service etc.
 - Joint commissioning of research where common challenges e.g. horizon scanning
 - WTP/Business Options Testing agree common approach, delivered by same consortium
 - Acceptability testing common approach/common delivery
- Cross-sector**
- Identify resilience interdependencies
 - Agree social return on Investment methodology

- Bespoke commitments e.g. To reflect areas of difference identified by central research; where poor company performance to drive improvements; to reflect local issues, preferences and opportunities; create services that delight
 - Areas for co-development with communities – PR24 engagement Strategy/Purposeful Business Strategy/ Digitalisation Plan/ Environmental and Net Zero Action Plans/Resilience strategies
 - Resilient community strategy/support customers dealing with change
 - Behaviour change & BAU engagement
- Assurance: in company groups**, reformed. Expert groups with diversity of perspectives and skills in relevant areas. Role a) **assurance on business plan** engagement outside of centrally led research e.g. for bespoke commitments and in development and delivery of purposeful business, Engagement Strategy for 2025-30, Net Zero Action Plan, Vulnerability/affordability, and community resilience strategies. B) **Ongoing role** - hold to account/transparency on the latter. c) Supporting **culture change**

Delivery partnerships e.g. affordability Thriving Communities Partnership, catchment management, Local Enterprise partnerships? Regulator cede control with conditions? Promise to listen to outcomes. **Assurance: Partnership Methodology**

b) Which organisations do you think should be involved in steering this research?

It depends at what level the research is being undertaken and who is leading it. At all levels Ofwat has to take an active role (albeit a different role), as ultimately this is about the regulator having confidence in the quality of the evidence base. In particular, the outcome of any centralised approach has to be to ensure that input and challenge is made early such that the engagement is robust and fit for purpose. There is no point having a process where you get to the end and then Ofwat or other parties say it's not good enough or it hasn't been used appropriately.

For centrally-led research we'd suggest the following steering group:

- Ofwat – as noted the regulator has to take a leading role as this is ultimately about Ofwat having confidence in the evidence to make its final determinations. We do not see a conflict here as this decision is ultimately owned by the regulator.
- Water UK – as the industry representative, who can share information and views two-ways with/from industry members.
- CCW – as the statutory consumer watchdog. They should not lead this research, as they need to be able to freely advocate in the interests of consumers. They risk having a conflict of interest if they lead engagement will be unable to 'mark their own homework'.
- Independent research methodology experts with live up to date knowledge, including about more innovative approaches. This is really important as none of the key sector players despite their commissioning experience have a track record of using particularly progressive engagement or new technologies themselves.

- Independent stakeholder engagement (as opposed to research methodology experts) and water sector experts to understand the interdependencies, how insight links to the big picture outcomes and to inform engagement.
- Regulators and public interest experts/voices especially environmental, and social issues brought in to give a view on particular pieces of research.

A pool of experts for particular types of engagement may be needed. e.g. Willingness to Pay experts when reviewing WTP research and similarly with business options testing. Environmental groups and the environmental regulators would need for example to be involved in the framing of environmental related research but perhaps not all research. Similarly involve the Drinking Water Inspectorate on the engagement approach related to that area and pool research and insight in advance with them.

In terms of lessons learned from other sectors:

- Company led collaborative research can be slow and default to the lowest common denominator (i.e. distinctly average approaches) so the regulator will need to consider how it ensures high quality engagement.
- For RIIO-2 transmission companies did joint WTP research but this didn't allow appropriate time/resource for consumer and expert challenge. In addition, consumer challenges that were made weren't captured and responded to.
- There needs to be a mechanism for independent members of the steering group to observe engagement in practice e.g. observe cognitive testing of quantitative tools to check they are properly

understood and to intervene if it's not fit for purpose. In our experience there can be a significant disconnect between the sales pitch of how great the research is and delivery in practice. Members of any steering group will need to observe engagement to be confident of its quality and concerns will need to be raised immediately so improvements can be made to research early in the process.

c) When should this research be undertaken?

The central research to inform Ofwat's methodology and to identify overarching priorities and common performance commitments needs to start immediately. Ofwat should require a gap analysis to be undertaken. That is Ofwat, industry, CCW pull together existing insight and learning on key business plan areas to ensure new engagement activity is focussed on those areas where it is genuinely needed and parties are not reinventing the wheel and revisiting well-rehearsed issues. Then carefully plan the strategic engagement approach with the advisory/steering group. This should for example include: as a first step to clearly defining research and engagement questions, building on the gap analysis; identifying who is best to engage to answer those questions e.g. customers, citizens, business consumers, wider stakeholders, specialists etc. Finalise who is best placed to deliver. Then and only then consider how best to engage those groups and when best to engage them in the process e.g. what research and engagement methods to use and when best to engage them. Linked to the latter designing the procurement approach to ensure that smaller as well as established companies are involved in delivery. Consider how you will demonstrate and triangulate findings. Companies

can start their own engagement on the areas mentioned in the Figure 1 above and there will need to be feedback loops between the company research and the central research. Clearly engagement such as acceptability testing would need to come at the end of the process but all this should be strategically considered and mapped in advance.

d) How should this research account for differences between England and Wales?

There is scope and arguably the case for a completely different model of engagement in Wales. For example, some kind of constructive or negotiated settlement similar to Scotland. Ofwat has excluded this from its discussion paper and it will be for the regulator to ensure it has appropriately reached out to the relevant bodies in Wales to explain the options and possibilities¹² and for relevant Welsh stakeholders to make the case as they feel appropriate.

If the same model is adopted for England and Wales, differences should be reflected in the same way that regional differences in England in policy (e.g. cities have different goals on economic development, net zero, digitalisation etc), culture, values, priorities and needs are reflected. Ofwat needs to identify where there are interdependencies between regions and the significance of that.

¹² [\(PDF\) Negotiated Settlements and Constructive Engagement \(researchgate.net\)](#)

5. To what extent do you think it would be necessary for us to provide guidance on customer engagement, assurance and other issues at future price reviews if we made – or did not make – use of collaborative nationwide engagement?

6. To the extent that you consider further guidance is necessary, what areas should this cover?

Guidance is essential. This was a key lesson learned from PR14 and remains a key lesson learned from PR19. The regulator appears to have shied away from providing this in the past, perhaps in part due to lack of expertise or confidence or a misplaced belief that this somehow interferes with company's direct relationship with their stakeholders. The problems with the CCG assurance process for PR19 were largely a product of poor process which better guidance could easily address. It would be inexcusable if these failings were to happen again.

Our initial thought was that centrally led research *if genuinely* collaborative with the right people around the table (individuals will need very careful consideration) including Ofwat, shouldn't need 'assurance' per se but there are particular challenges as to how to ensure the consumer and public interest voice are appropriately weighted and heard in this process. Also, a keen focus will be needed by independent expert members on any steering group on the delivery of engagement in practice. On balance, in practice, we think independent experts on the steering group and Ofwat may need to observe engagement and feed back to the steering group on the quality of the delivery, cognitive testing ect. to give the Group confidence. It is not in the interests of either the research company to acknowledge where research is not fit for purpose.

That could be done in a relatively light-touch way but would still need to be done to ensure robustness and to recommend immediate improvements to the process.

Guidance on good quality engagement and assurance will still be needed for important business as usual engagement alongside local engagement and regional engagement to inform the business plan.

While central engagement may cover off common service levels, regional and local needs and ongoing engagement are not insignificant and can have an important impact on consumers and citizens lived experience of 'water' and enable the delivery of wider public value. We would hope that come PR29 companies' engagement maturity level would be such that this kind of assurance will no longer be needed but in practice, we don't think (and Ofwat's Initial Assessment of Plans would appear to support) that the majority of companies are there yet.

While water companies are much more customer centric than they were a decade ago the majority are still on a journey to embed a culture of engagement and lack 'engagement maturity'. That is across their organizations (not just the customer service/stakeholder teams or flagship initiatives) they don't yet consistently have the skills, expertise, infrastructure, processes, resources, and commitment to undertake high-quality robust engagement as part of their day to day activity. For many water companies they are also in their infancy in terms of understanding and developing behaviour change approaches needed to ensure longer-term resilience.

Given the importance of engagement highlighted by Ofwat's strategy, a continued regulatory focus on this area is therefore still needed. Now is not the time to take the foot off the engagement pedal and let the

companies get on with it. 'Good performing' companies may do well (or get complacent), weaker companies risk slipping further back relative to their peers including on progress made to date.

Good quality engagement guidance

A key lesson learned from PR19 was that while Ofwat published engagement 'principles'¹³ that there was no common minimum understanding as to what good quality engagement actually looked like. Consequently, across Ofwat, CCW and the CCGs different benchmarks and assessment approaches were used with different conclusions reached¹⁴. Ofwat should co-develop (perhaps with the central advisory or steering group) what good quality engagement actually is including what it means by proportionality. This could form the basis for an assurance framework and would inform any steering group's approach. In addition, as mentioned, Ofwat should co-develop a triangulation framework (as there is no common understanding including between Ofwat and CCW for what good triangulation is).

¹³ https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20160525w2020cust.pdf

¹⁴For example, benchmarks referenced by water companies included but were not limited to: Ofwat's high-level principles for engagement outlined in its Customer Engagement Policy Statement and Expectations for PR19 (May 2016); Ofwat's 'Tapped In' report (March 2017); UKWIR good practice documents; The AccountAbility AA1000 Stakeholder Engagement Standard; CCW Defining and Applying Triangulation in the Water Sector (July 2017); Market Research Society good practice.

¹⁵ For example, there will be peer review by other water companies, paid peer review by individuals who may or may not be transparent or genuinely independent given their services have been

Assurance Guidance

Ofwat should specify the assurance it wants in detail. **Leaving companies to adopt their own assurance approaches will result in a patchwork of inconsistent approaches which will yet again fail to provide appropriate consistency and comparability of assurance as to the quality of engagement undertaken¹⁵.**

Regulators need to carefully consider and clarify in any engagement guidance the assurance process:

- Why they want the assurance – this needs to be transparent
- Precisely what they want assured¹⁶ - which aspects of engagement or other parts of the business plan, why, and how they will use those views – this would need to be relatively prescriptive guidance but with flexibility for company differences
- The acceptance criteria – preferably this would be co-created with relevant stakeholders/experts to ensure legitimacy and transparency.
- The level of assurance that would give them confidence – what's proportionate? We'd strongly encourage a focus not just on the process on paper, but on the delivery in practice.
- How results will be moderated/made comparable.
- What is considered sufficient and appropriate evidence e.g.

procured by the company, expensive consultancy review by big firms claiming to have engagement experience but perhaps in practice very little – all of those arguably lack independence, transparency and consistency. Assurance by key stakeholders could provide legitimacy but the regulator will lack visibility on the extent to which they have really been involved and if they really had the time to understand and scrutinise the process.

¹⁶<https://www.citizensadvice.org.uk/Global/CitizensAdvice/Sustainability%20First%20-%20Final%2024.06.2020.pdf> p.38 outlines the areas that CCGs scrutinised

Challenge Logs, engagement observation sheets, question sheets, minutes, feedback reports, company research reports etc.¹⁷

- The skills and expertise assurers will need to perform the role.
- How it will ensure assurers are seen as independent and legitimate.
- Clarity on the output wanted at the end e.g. report, verbal feedback etc.

Crucially, regulators need to consider if they just want a view on the end output (i.e. if the engagement is great or terrible) or if they want the research to be fit for purpose by the end of the process. If the latter (which is more in consumers interests) there needs to be early and periodic scrutiny to provide feedback to the company as they go along so they can improve.

7. Are there other models which you think we should consider for providing assurance at future price reviews? If so, what are the benefits of these alternative approaches

We considered the range of potential approaches outlined below including do nothing. On balance as outlined in Figure 1 we think a combination of those highlighted in green should be used dependent on the engagement undertaken.

- ‘Old school’ regulatory approach + traditional consultation and some engagement + statutory consumer voice

- Quadripartite approach – statutory bodies/regulators providing iterative regular feedback on business plans/approaches as developed.
- In-regulator challenge group e.g. RIIO-2 Challenge Group in energy
- In-company independent expert challenge group but reformed to address lessons learned from PR19 and RIIO-2
- Constructive engagement on parts of the business plan e.g. consumer vulnerability, customer service, resilience – regulator cedes control in some areas in practice if not legally
- Regional CCG or regional in-regulator group for regionally led engagement
- Negotiated settlement on the majority of business plan (perhaps excluding financing/cost of capital)
- Collaborative centrally led research + improved regional and local assurance.
- Cross sector partnership model e.g. deliberative regional or local level partnerships on key areas that require cross sector approaches
- Engagement through regional or local government

We make the following general comments:

Central Challenge Group - We agree with Ofwat’s assessment that a central challenge group is not well placed to provide assurance on the quality of engagement (they are useful for many things but not this). In

¹⁷ These are all mechanisms currently used by in-company independent groups which capture impact and activity which Ofwat should understand and consider.

addition to the all the reasons specified, our Project Inspire¹⁸ research which interviewed judges and companies involved in energy's RIIO-1 Stakeholder Engagement Incentive highlighted panel assessments tend to skim the surface, are too heavily influenced by the company sales pitch (which may be very different from the delivery in practice on the ground); and it can have unintended consequences shifting a company's attention to the regulatory assessment process over delivering ongoing good quality engagement. Our experience of the RIIO-2 Challenge Group process for gas distribution and transmission, is that while a central group has the benefit of a comparative look across all companies, that in practice, the central group was heavily reliant on feedback from the in-company groups in making its assessments of the energy companies' engagement approaches as they did not have appropriate visibility of company activity.

Regional CCGs - Water Resources South East has shown that a regional challenge process can be useful *for regionally led research for regional challenges such as water resources*. With Water Resources South East, each of the company CCGs has nominated an attendee to challenge the approach and feedback to the company CCG. There are improvements that could be made to this process, including earlier involvement of the CCGs in the process, and building in time to properly review and influence. In addition, not all CCGs contribute equally with consequently some water companies (in this case some of the smallest) putting in the most effort and resources and others seemingly simply waiting for the outputs with a tick box approach to engagement. If the weaknesses in the approach were addressed this would be a useful approach for where there is regionally led engagement/regional challenges.

While there are real strengths in a regional CCG or assurance process for regional led engagement, we are sceptical as to how easy it would be for a regional CCG to review an individual company's wider engagement. That is engagement designed to address specific company challenges, ambitions and local needs. Such a model risks having all the downsides of the central CCG, in terms of the challenges of scrutinising a vast amount of engagement, ability to input in a timely way and would be a significant time commitment for those involved.

The company level CCGs already include CCW representatives and Environment Agency and Natural England who in theory are well placed to benchmark across the region because of how they are organised and with representatives sitting on multiple groups. Companies also already effectively benchmark themselves as they go along against their neighbouring companies through informal chats. There is already therefore some regional benchmarking. The problem is the lack of wider benchmarking that helps to drive up standards. In a low performing region (i.e. such as the South East) benchmarking against other low performing neighbours sets the bar too low and just serves to reassure low performers that they aren't out of step with their water company neighbours. Wider benchmarking is needed including from outside of the water sector, to raise standards more widely.

It's arguably less of a concern that a regional CCG 'decreases the local connection' in the sense that the CCGs are not representative stakeholder groups (nor could most ever be given their size) nor are they a substitute

¹⁸ [Sustainability First: Project Inspire - Confidential. WORKING DRAFT – not for circulation Version 24 September 2017](#)

for companies engaging with their wider stakeholders and customers who know better than anyone local concerns.

In-company independent CCGs - The real downside of a regional CCG is what is lost from not having an in-company independent CCG. When well designed, these groups which are both arms-length from but within the companies are well placed to: get behind the sales pitch of engagement to understand what is really happening in practice; deliver timely improvements in company approaches; drive up standards and embed culture change within the organisation. Ofgem recognised this in its enhanced engagement Guidance which also gave the Groups a role to scrutinise the quality of the business plans themselves, which has been demonstrably successful at driving improvements in the business plans ahead of regulatory submission with all the resultant benefits. But the CCG approach does need improving to be effective for all the reasons specified. We think weaknesses could be easily addressed and a more proportionate, consistent, comparable approach adopted.

In particular, Ofwat should clearly specify:

- The aim of the CCG – Ofgem for example clearly stated that -the purpose of the in-company groups was ‘to support Ofgem in making its final determination’ so it’s better aligned to stakeholder views. The Groups should be seen as another tool in Ofwat’s regulatory toolbox. That is not to say that they will never disagree with Ofwat’s decisions, but the focus would then be on helping Ofwat to properly understanding the quality of engagement and how it links to stakeholder views. This would require a shift in focus for a number of groups who see themselves as independent from both the regulator and the company.

- The scope of the Groups – we’d recommend the groups provide assurance on a) The engagement that informs the bespoke performance commitments in the company’s business plan b) The company’s engagement strategy for 2025-30 and business as usual engagement approach. This would be manageable and proportionate and support Ofwat’s wider strategic goals to embed a culture of engagement in the companies. They would also be well placed to provide a view on those areas where it can be hard for the regulator to get visibility e.g. purpose/responsible business and behaviour change initiatives. There may also be areas where the company are co-delivering solutions e.g. catchment management approaches, vulnerability where the groups would be well placed to give a view.
- The membership skills and diversity of perspectives – to ensure that they have the appropriate expertise and breadth of experience and backgrounds to perform the role identified. The membership of the CCGs for PR19 varied with some lacking research methodology, willingness to pay/validation experts or economists needed to fully interpret and understand key quantitative research.
- *How* they should undertake their role. In PR19 Ofwat did not specify how the CCGs should operate. Across the sector CCGs outline different ways of working with some more collaborative than others. For example, a CCG such as Affinity Water said they acted as ‘armchair auditors’, others like Anglian Water’s Customer Forum had members of its group sit on the company’s engagement steering group to in their words “help guide and co-create the company’s customer engagement strategy from the

outset” and so that the company’s engagement strategy could be examined in more detail. The CCGs scrutinise engagement and research in many different ways¹⁹.

- A mechanism for the CCGs to come together to moderate findings, as per education examiners, with Ofwat and each of the Groups sharing insight on wider good practice and benchmarks.

To ensure independence and so Ofwat can have greater confidence on the scrutiny process.

- Mandate the groups – this is essential and critical to support the Group’s independence and to give them teeth. Without this the Groups risk becoming rubber stamping bodies or being sidelined if they disagree too much with the company.
- Regulators should either appoint or vet the independent in-company Chair and reject any candidates that are too close to the company or do not meet minimum requirements. This is key.
- Recruitment of Chair and members via open competition (CCW or Ofwat to sit on Chair recruitment panel though we acknowledge the resource considerations).
- Approve/review the membership, to ensure Groups have the expertise, and diversity of skills, backgrounds and perspectives needed to perform the role.
- Companies should be required to give a reason when they dismiss a Chair. Companies may be more likely to fire/phase out challenging Chairs/groups. Ofgem requires this along with bullet 2.
- Where Chairs and groups are paid, funding should go via the regulator or another body. Under the current process companies

directly pay the Chair and members. This ends up with a situation where the Groups are arguably ‘biting the hand that feeds them’.

- Regulators meet the Chairs of the CCGs regularly and build an open and trusted relationship from the start. Groups to share feedback on company progress. This could be done in small groups of CCG chairs to minimize resource required.
- Member/chair tenures time limited to help avoid capture – then get the right balance between continuity of expertise and fresh independent perspectives. No Chair should stay longer than two price-controls to avoid capture.
- Requiring all the best practice governance to be in place, and asking companies/CCGs to self-report that is the case²⁰.

8. To what extent do you think that the research techniques which have previously been used in the water sector are suitable to enable companies’ business plans and our final determinations to reflect customer views? Do you think any particular approaches should be revisited?

As Ofwat mentions, the pros and cons of different research techniques are well documented. We share the concerns raised about the use of willingness to pay and the extent to which customers can meaningfully engage in making complex trade-offs via this tool and how the information is subsequently used²¹. There appears to be significant scope for improvements in the quality of companies’ engagement. In particular we encourage improvements in the design and targeting of engagement activity, deliberative research generally, and research on future issues.

¹⁹ Sustainability First - Final 24.06.2020.pdf (citizensadvice.org.uk) p.37

²⁰ Sustainability First - Final 24.06.2020.pdf (citizensadvice.org.uk) e.g. p.39

²¹ For example, Microsoft Word - Final ESAN event paper 23 Dec 2016.docx

Design and targeting of engagement activity

Companies and regulators need to improve their engagement planning. In particular, to clearly define engagement aims and the research questions to be asked, then identify impacted and interested stakeholders, and only then design engagement approaches which are best tailored to the purpose and the audience. While the precise approaches vary, it is generally recognised that there is a spectrum of engagement aims which includes: ‘informing’; ‘consulting’; ‘involving’; ‘collaborating’; and ‘empowering’ and ‘co-delivering’.

Too much deliberative research undertaken during RIIO-2 and PR19 allowed insufficient time and was poorly designed to achieve the purpose intended. Detailed discussions about company returns, resilience and trade-offs crammed into evening slots where people were tired after work for example. Insufficient use of external perspectives. Compare that with the Climate Assembly’s discussions on net zero which were the product of more than 6,000 hours of Assembly sessions (60 hours per member) across six weekends in 2020 and a total of 47 speakers from academia, industry and policy. Blue Marble in its report to CCW highlights that more creative, immersive exercises to increase customer engagement, observation/ethnography to ground water services in consumers’ lives are needed. This kind of research is expensive to do well²² so needs to be carefully considered with collaboration in some areas.

Importantly, as mentioned Ofwat should ensure that the *delivery* of qualitative research is assured as there can be quite a disconnect between the sales pitch narrative of engagement in the business plan and comprehension and delivery on the ground. It is not in the interests of either the research report writer nor the company to acknowledge where engagement was not fit for purpose.

Independent in-company groups are well placed to observe a selection of engagement and provide assurance in this area. Many did for PR19 and RIIO-2 but not all, but there was no agreed approach and we are not aware this formed part of the IAP engagement assessment. South East Water’s CCG for example, use observation sheets so there is an audit trail of observations, views and feedback to the company. In this way improvements can also be made at the beginning of engagement activity to help ensure improvements in quality of the research as it goes along.

Philip Graham – Chief Executive of the National Infrastructure Commission reminds of the importance of Ofwat listening to engagement:

“My biggest lesson [from listening to public discussions] “is that policy makers and citizens don’t view decisions through the same frameworks. “Policy makers tend to be utilitarians considering the greatest benefit for the greatest number” whereas citizens tend to be cantarians – think categorical imperative – and ask Is this fair?”

²² <https://www.parliament.uk/business/news/2020/september/climate-assembly-uk-new/#:~:text=The%20work%20of%20Climate%20Assembly,reach%20the%20net%20zero%20target>

Understanding future value

Engaging on issues in the future is notoriously difficult but important given that decisions made today will have a profound impact on future generations. The salience of the present makes it hard for individuals and institutions to think beyond the immediate e.g. news cycles, political terms, quarterly shareholder reports. There is also a propensity towards present and optimism bias favouring short-term payoffs over longer term benefits and rewards. There can be a tendency among some to think about climate concerns as ‘future issues’ rather than impacting now, making it all the more important to engage with communities who have experiences of climate impacts e.g. flooding and supply interruptions to get a better understanding of how they respond to and value resilience. Current thinking about the future also tends to be dominated by so-called experts who in practice face equal challenges in understanding economic, social and political change. Stakeholder responses to company proposals are also influenced by past experiences. There is a question therefore as to how to best frame engagement to encourage people to look to future challenges not past problems.

Many issues in practice cross-sector boundaries yet sector specific research may not be framed that way. Young people are an important segment to involve but there appears to be a tendency to use young people as a proxy for ‘future consumers’. The real challenge is we need to understand what consumers living in a different future (with eg greater climate impacts, new energy sources) will judge as priorities. We need to

think how we can better engage on these issues. Delivering value is increasingly complex for governments and organisations are siloed. Nesta argues that there is a need to build constituencies for the longer terms. Traditional engagement activities tend to be a snapshot of what people think and are not especially good at creating movements for change or shifting fundamental behaviours. Nesta offer some interesting approaches in their report which we encourage Ofwat to explore²³.

9: Do you think that there are alternative approaches that we might usefully adopt in water, including those used in other sectors and potentially outside the area of economic regulation? If so, which techniques and why? If not, why not?

Yes. Partnerships models. For example, on affordability and consumer vulnerability:

Customers who struggle to pay one utility bill often struggle to afford wider products of services. Affordability is a cross-sector issue, with the behaviour of one company potentially impacting a customer’s ability to pay another utility company’s bill. Between different communities, levels and causes of deprivation may vary, as will the availability of support services. We encourage monopoly regulators in particular to consider how they might ‘enable’ Thriving Communities Partnership (TCP) type models²⁴. And for essential services providers, how they might set them up. As our Sustainability First case study²⁵ highlights, TCP is a member funded cross-sector collaboration hosted by Yarra Valley Water²⁶. It aims to ensure that everybody has fair access to the modern essential services

²³https://media.nesta.org.uk/documents/Our_futures_by_the_people_for_the_people_WEB_v5.pdf

²⁴ Companies such as United Utilities with their Hardship Hub are reportedly adopting cross-sector approaches.

²⁵https://www.sustainabilityfirst.org.uk/images/publications/fair_for_the_future/SF_The_Thriving_Communities_Partnership_Case_Study_26.3.19_FINAL_1.pdf

²⁶ Yarra Valley Water is government owned and provides water and sanitation services to more than 1.8 million people and 50,000 businesses in northern and eastern suburbs of Melbourne

they need to thrive in contemporary Australia: including utilities, financial services, telecommunication and transport. TCP focuses on putting ‘the human’ at the centre of what they do. It aims to build more resilient communities and stronger businesses. It brings together 170 organisations from ASX listed companies, government and regulation, and the community sector to solve critical social partnership issues. YVW said the partnership changed the company’s conversation to ‘what would work for the customer’ rather than what was required by the company.

While this initiative initially grew from Yarra Valley Water’s vulnerability partnership programme, a potentially important distinguishing factor is that it is a formal partnership grounded in a partnership methodology developed by an independent Partnership Brokers Association. This is reportedly an international professional body for those managing and developing collaboration. This kind of structure could potentially provide assurance to regulators of a robust, fair and inclusive process.

We appreciate such an approach is not without its challenges given existing frameworks, but we’d encourage regulators to explore it- perhaps as part of a cross-regulator innovation sandbox idea with a willing/high performing company in this area.

On the issue of affordability and vulnerability, while we see a critical role for the regulator in setting minimum common basic standards, and in setting the funding envelope, there is a genuine question as to whether regulators are really best placed to know how to address affordability and inclusion at a regional and community level. This kind of bottom-up

²⁷ <https://www.ofwat.gov.uk/wp-content/uploads/2020/12/A-discussion-paper-on-public-value-in-the-water-sector.pdf>

approach enables significant societal value to be delivered. Cross sectoral approaches can harness diverse resources, expertise, and skills, enabling better more customer and community focused solutions to inequality and vulnerability. Vulnerability must leave competition at the door and attack the problem from multiple angles. In its discussion paper on public value in the water sector, Ofwat outlined that it wants companies to look for ways to deliver ‘more social and environmental value’ and to have ‘more ambition’²⁷. This would seem like an opportunity. It will be important for regulators to consider how they can remove barriers to these kinds of partnership initiatives. This would also appear to be in line with UK Government’s Civil Society Strategy ‘where people are empowered to take responsibility for their neighbourhoods’²⁸.

10. Are there any areas of the price review where the scope to solicit informed opinions from customers is intrinsically limited?

Generally we share the view of Stella Creasy MP for Walthamstow and former Deputy Director of Involve, who argues that customers are able to engage on most issues when research is well designed - “It’s the process not the public”.

We recognise and agree with many of the findings in CCW’s Blue Marble report²⁹ However, this is but one report and there are many others that show how customers can be engaged well on very complex issues. Better quality engagement is needed on issues around resilience, future trade-offs, fair returns, affordability among other areas. One of the benefits of centralised engagement is that this can be done well, more cost

²⁸https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/732765/Civil_Society_Strategy_-_building_a_future_that_works_for_everyone.pdf

²⁹ [Engaging-water-customers-for-better-consumer-and-business-outcomes.pdf \(ccwater.org.uk\)](https://www.ccwwater.org.uk/engaging-water-customers-for-better-consumer-and-business-outcomes.pdf)

effectively. As Rebecca Willis, who helped to run the Citizens Climate Assembly UK states:

“I was reminded of something that has struck me many times about deliberative processes like citizen assemblies. While I am always impressed with people’s ability to get a grasp of the technical detail, they also add in wider social and ethical dimensions, which are often missing in debates among ‘expert’ stakeholders... It is the unsettling of the established order that I find so interesting, and useful, about deliberative processes. Participants do not share the same assumptions, or working culture, of ‘experts’ (whether climate experts or public health). Instead they bring a new perspective, one that is grounded in their own values, outlook and life experience. In doing so they challenge orthodoxies and ask difficult questions.”³⁰

That said, there are clearly some areas where it would be more productive to engage experts, or public interest groups e.g. cost of capital, measures for some performance commitments, targets, and caps and collars.

11: Do you think there are other ideas we should be considering for shaping customer engagement at future price reviews? If so, how would these ideas help deliver on the goals proposed in this paper?

Yes, many. As stated, this paper is far too narrowly framed as are the goals identified within it. It focuses on the quality of customer research to inform Ofwat’s business plan decision and fails to consider how engagement can help it to deliver the regulator’s wider strategic goals for

³⁰ <https://www.involve.org.uk/resources/blog/opinion/people-power-and-politics-time-covid-reflections-climate-assembly-uk>

the sector. In addition, the potential of engagement to fundamentally reshape the approach to price controls is also not considered.

Engagement has a key role to play in ensuring inclusive and affordable water services; reliable supply; loved services and sustainable communities, efficient and value for money services, lighter touch, less resource intensive regulation and in supporting trust and legitimacy in the sector. **How Ofwat will enable these outcomes and ensure companies are ready for this challenge is totally absent from this paper.** The engagement need is profound. Without a broader focus significant opportunities will be missed. In addition, Ofwat would benefit from providing a longer-term vision for engagement and regulation— where it sees the companies and price controls now and what it would like to see in the future.

We’d recommend as a minimum:

1. Incentivize high-quality engagement in the price control methodology in both the design and delivery

As noted in PR19 for water Ofwat said companies would not be fast-tracked if they did not carry out high-quality engagement. In RII0-2 for energy, companies were expected to deliver high-quality engagement else they risked a penalty. These regulatory signals sent a clear message that engagement was important and were powerful in encouraging the right company behaviour. Regulators designing price controls should include a similar signal. This should focus on both the quality of business plan engagement and the quality of ongoing in-period engagement. This

is fundamental component.

2. Require companies to develop BAU stakeholder engagement strategies

CCW's paper, 'How can engagement be improved for future business plans' recommends "More focus on business as usual engagement with business planning less of a trigger, especially for those in vulnerable circumstances... not just around performance commitment monitoring, but as a wider programme of meaningful engagement to improve services and understand needs outside of business planning.³¹" As part of RIIO-2 Ofgem has required companies to develop engagement strategies for the price control period and the Customer Engagement Groups provided views on the quality of those to Ofgem. This was a positive move though would benefit from some follow-up benchmarking and monitoring.

Many companies do not have a strategic stakeholder engagement strategy. Such an approach would encourage water companies to think more strategically about their engagement. In particular, what their aims are, who they need to partner with and engage with, how they will do it, and critically how engagement can support the delivery of their business plan commitments and wider purpose. It helps to embed a culture of ongoing engagement, rather than a stop start approach just for the business plan. The CCGs can play a useful role in holding the company to account on progress on the engagement strategy, providing views to the regulator periodically, and act as a critical friend, to help companies get it 'right first time'.

3. Identify, enable and 'recognise' business plan proposals that involve cross-sector delivery where they can deliver additional public value

There is significant potential public value from companies working across sectors. This is especially important in relation to ensuring resilience, delivering environmental goals and affordability. Such approaches can be more complex and time consuming and there may not be sufficient commercial incentive for companies to undertake them otherwise. Regulators should ensure they remove barriers to companies collaborating and consider enabling utilities to get credit in some way for complex joint working that delivers demonstrable value beyond industry good practice and their own activities. For example on resilience: cross sector companies, government and regulators need to work together to better understand the resilience interdependences and the risks. And all essential services companies should co-develop a resilient customer and community strategy with relevant local partners.

Upcoming publications - We would be happy answer questions on this response or discuss any of these points further. In addition, we highlight that Sustainability First will be publishing two papers later this year - a lessons learned paper from Ofgem's RIIO-2 Enhanced Engagement approach and Ofwat's PR19 Challenge Group process and an exploration as to how engagement can help to address the key challenges facing essential services and unlock additional public value.

Yours sincerely
Zoe McLeod
Zoe.mcleod@sustainabilityfirst.org.uk

³¹ [CCWs-View-on-Consumer-Engagement-at-PR19.pdf \(ccwater.org.uk\)](#)