INDUSTRY COMMENT

UP TO STANDARD?

Accent's Rob Sheldon considers the issues and challenges emerging with Ofwat's proposed centralised approach to customer engagement at PR24.

Every recent price review has brought with it a new set of Ofwat driven considerations and guidelines which have been successively helpful in guiding water company customer engagement programmes.

For PR14 it was all about looking to set out a standardised approach for undertaking what was at that time seen to be **the** key engagement tool – willingness to pay (WtP) surveys designed to obtain valuations across a range of potential service changes.

Then in the run up to PR19 the emphasis shifted to one of concern that there was potentially too much weight attached to such surveys and 'wouldn't it be a good idea to include other approaches to cross check the findings and to provide the opportunity to triangulate them'. To this end, Ofwat ran workshops to introduce a range of other potential approaches.

The key lessons we learnt from these two developments were:

- From PR14, that some companies and their advisors looked to move away from the standardised approach if they thought they could improve on it (which they often did).
- That the triangulation approach seemed to bring with it a host of alternative methods and some interesting differences in the findings which needed to be reconciled.

Underpinning these initiatives was an ongoing concern with the variability in WtP findings which remains a challenge for the industry, as it has also been a challenge in other industries.

Fast forward to PR24 and the Ofwat driven consultation debate centres on whether some of the necessary engagement would be better handled though a centralised approach or indeed through another version of a standardised framework. The debate has moved on from just being about WtP (though the same variability issue is cited in this regard) and has broadened out to encompass other potential engagement approaches too.

This consultation has been couched within a set of clear and well defined longer term objectives coupled with new thinking on assurance approaches with less support being given to 'local' Customer Challenge Group infrastructure.

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The developing debate

We have had the opportunity to talk to Ofwat and to a number of the water companies over the past few weeks about how the potential revised approaches could work in practice. These discussions have identified some key emerging themes.

Central to these is a reasonably clear appreciation that Ofwat genuinely wants to help the industry to obtain a more consistent set of findings to feed into company business plans.

But at the same time the company views on the means of achieving this are very varied with some companies wanting to help to make a centralised approach, for example, work whilst others are either unaware of what this really means for them or are quite opposed to this development.

What unites them is the need for more detail, some of which may emanate from discussions currently taking place between Ofwat and company representatives. But the potential difficulty contextualising these discussions is that there are different detailed issues/preferred solutions for which clarity is being sought and these have the potential to overwhelm the resources that could be available to Ofwat as it seeks to deliver against an adopted strategy.

To make matters more challenging, these issues are likely to increase in number and become more complex as any 'roll out' progresses.

Let's look at the range of issues already being raised.

Key emerging challenges

Amongst the challenges being thrown down are timing concerns. If the centralised approach is adopted for a WtP survey, for instance, there is a prevalent view that any valuations emerging from this will be needed by companies to feed into their business planning framework by early 2022.

This is already very challenging given the Ofwat desire to set up the three bodies it considers would be required to drive this engagement programme. And there can be expected to be a healthy debate around a number of theoretical and practical issues as these bodies become populated. The fact that there are genuine differences in views across the industry has the potential to create challenging tensions. We saw it even within individual CCGs during the PR19 process. This difficult backdrop will undoubtedly be further exacerbated as many of the water companies and their advisors look to play a leading role in the development of any ensuing engagement programme.

In no particular priority order, here is a list of (non exhaustive) issues that are likely to face Ofwat and its advisors during the development of its preferred engagement strategy:

- How closely will the companies be enabled to steer the programme/engagement tasks?
- Will a centralised/standardised approach lead to 'false' consistency and an over-riding of real geographical differences?
- How much flexibility will there be for each water company to have bespoke versions of a centralised/standardised approach?
- How easy will it be for companies to fit the Ofwat programme into their preferred engagement/triangulation framework?
- Will any centralised/standardised programme be developed and tested out with customers/citizens of all the water companies?
- Will the mooted funding basis whereby the larger companies seemingly might pay more lead to an associated greater level of involvement?
- Will the inevitable need for different sampling strategies due to differing levels of data availability be able to be accommodated within a standardised/centralised framework?
- If the centralised/standardised approach was to be used for a WtP engagement programme, which of the very different methodologies would be used to overcome fundamental and well documented issues like risk awareness and insensitivity to scope?
- How easy will it be to agree on sampling approaches for the different populations e.g. future customers, the vulnerable, large businesses, etc?

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Cost and risk

It is perhaps worth also bringing to the fore that there is concern amongst some water companies that any potential centralised/standardised strategy could increase engagement costs rather than reduce them as has been suggested. In this regard, a number of companies have voiced the view that they might need to develop two engagement strategies – one for if the potential Ofwat strategy goes ahead but does not deliver on time (a backup/twin track approach) and one for if it goes ahead and does deliver on time.

There is also a concern that if a particular approach to WtP for instance is adopted from amongst all the different options that are available, then if this was the 'wrong' choice it could mean that all the data is potentially damaged. This compares with the current type of approach which would see different companies using different approaches and enable comparative work to pick through what appears to have worked and what not. This latter course would potentially provide a usable set of findings where the former might not.

Lastly, and in regard to timing and practicality issues, there would seem to be potentially more support amongst companies for a standardised approach to be considered for acceptability testing and bill profiling as there is more of a history of doing something similar to this in the industry and, within the context of the business planning cycle, there would be more time to plan for this.

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