



The voice for water consumers
Y corff sy'n rhoi llais i ddefnyddwyr dŵr



LESSONS LEARNED FROM THE 2019 PRICE REVIEW

A report by the Consumer Council for Water



ccwater.org.uk

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1. Introduction

- 1.1** This report is the Consumer Council for Water's (CCW) assessment of the 2019 Price Review (PR19). We have assessed to what extent the price review led to outcomes that reflect evidence of customers' expectations and needs. The assessment also looked at how well the price review process worked in terms of the customer input and influence.
- 1.2** To understand how well PR19 met customers' needs, priorities and expectations for the next five years and beyond, we looked at:
- How well water companies engaged with their customers to gather evidence of their views and how well this was taken into account in the preparation of 2020-25 business plans.
 - How, and to what extent, Ofwat's methodology for determining costs, investment, service improvements and incentives led to price determinations for each company that reflected their customers' required outcomes.
 - How well customers' views were represented through the PR19 process in engagement with both water companies and Ofwat, and the extent to which customers influenced key decisions.
- 1.3** Our assessment of the price review draws upon evidence from companies' business plans, Ofwat's Draft and Final Determinations, and feedback we received from a number of Customer Challenge Group (CCG) members. It looks at what improved at PR19 compared to previous price reviews. Our assessment also raises a number of recommendations for the next price review (PR24) to help deliver greater benefits for customers.
- 1.4** Our report identifies improvements for future price reviews that we want to see Ofwat adopt. Our set of recommendations will help change the price setting process to strengthen the quality of evidence of customers' views that should be used, and the level of influence customers can have on the outcomes of the price review.
- 1.5** There are also areas where we have identified the need for improvements but the way forward is not clear at this time. We want to work with Ofwat and water companies to identify the best solutions for customers.

2. Executive Summary: A summary of CCW's recommendations

2.1 The 2019 Price Review delivered a broadly positive outcome for customers, with a reduction in bills for many and investment to achieve greater resilience and service improvements in 2020-25 and beyond.

2.2 However, our analysis of the PR19 process, business plans, Ofwat's price determinations and the evidence used to influence decision-making shows there is room for improvement to strengthen customers' influence on the process and its outcomes.

2.3 There are a number of improvements that we recommend Ofwat introduce at PR24 to ensure that the outcomes from the process are driven by credible evidence of customers' expectations. This will help deliver a package of price and service improvements that is even more acceptable to customers.

2.4 At the time of writing, the Competition and Markets Authority (CMA) were due to issue their provisional redeterminations of the four companies that have appealed their 2020-25 price controls¹. The CMA's view of how Ofwat set its price determinations may have a bearing on how the price setting process is designed and applied in the future. However, regardless of the technical processes used to set prices, expenditure and incentives, customers should still have a stronger role in influencing the decisions that affect their bills and services, as this report highlights.

2.5 Our key recommendations are:

Customer Engagement

- Research undertaken by water companies should explore customers' expectations, priorities, and aspects of the business plan or determinations that customers can give a meaningful opinion on, using materials that are easy to understand for participants. Research should be inclusive so that the views of all types of customer are gathered.
- More research should be conducted centrally to allow for comparability. This should include acceptability testing of business plans and customers' views of core services that are common to all companies.
- Good practice should be shared across the sector in terms of customer engagement techniques and how to triangulate different sources of customer evidence. CCW has already published a report on Better Engagement² and will shortly be releasing our review of good practice in engagement at PR19. We also intend to carry out a review of how different sources of customer evidence were triangulated at PR19.

The price review methodology

- Ofwat should consider simplifying the price review process. This would make the process more 'user friendly' for its stakeholders and, we believe, improve stakeholder input and challenges to companies. This could mean:
 - Reducing the demand for information and data that isn't material for price setting
 - Retaining and improving a streamlined process for companies that have earned that right

¹ Anglian Water, Northumbrian Water, Bristol Water, Yorkshire Water

² [CCW: Engaging water customers for better consumer and business outcomes \(May 2020\)](#)

- The PR24 methodology should clearly direct companies to show how customer evidence has been used in decisions (or explain why it is not used). We would also expect Defra and the Welsh Government to make the same requirement of Ofwat so that the influence of customers on the price review process can be clearly tracked
- Customer research often shows that many customers do not support the use of Outcome Delivery Incentives (ODIs). There should be a review of the use of ODIs ahead of PR24. This should look at how to incentivise companies to deliver service improvements in a way that is more acceptable to customers and drives the right behaviours in companies.
- If Ofwat retains ODIs for PR24, the new Customer Experience measure (C-MeX) should be strengthened in terms of its potential financial value and its target for complaint handling performance (as this gives companies access to the C-MeX incentive payments).
- Performance Commitment (PC) measures and incentives should be more commonly applied to measure:
 - Customers' views of the affordability of their bills.
 - The number of customers lifted out of water poverty by support.
 - Company contributions to funding affordability assistance.
 - Customer awareness of the vulnerability assistance that is available, and customer satisfaction with any assistance provided.
 - Customer satisfaction (amongst all customers) that such services are accessible.
- Ofwat's framework for PR24 should encourage companies to produce business plans that are considered in the context of a longer-term strategic plan (as with the Strategic Direction Statements required at PR14) to address future challenges such as asset resilience and the effects of climate change on delivering the service customers expect.
- Ofwat also needs to be more explicit in how it will achieve a balance acceptable to customers when considering investment for short and long-term resilience in service performance, affordability and investment needs in the PR24 methodology.
- Ofwat should continue with its high level of cost efficiency challenge for PR24, increasing the efficiency benchmark gradually towards the 'frontier', taking into account evidence that several of the better performing companies are able to be both efficient and outperform their PC targets.
- Independent customer performance measures should be included in Ofwat's decision to 'fast-track' companies with comparatively good performance (e.g. CCW's WaterMark). Making the 'fast-track' assessment more robust would allow it to be streamlined further, simplifying the price review process.
- The tests Ofwat applies to company business plans should cover the scope of the plans, but needs to show what weighting is given to each individual test.
- The PR24 methodology should require companies to be more transparent in demonstrating to what extent their assets will be maintained, and consider whether asset health measures alone are sufficient.

- PR24 should see individual leakage targets for each company that take into consideration environmental and climate change impacts, as well as consumers' views.
- Where companies have received financeability uplifts, outperform RoRE (the Regulated Return on Equity) and fail to deliver on their commitments to customers, we think Ofwat should consider clawback of the financeability adjustment.

Customer Representation

- Further consideration should be given as to whether Customer Challenge Groups (CCGs) are needed in future price setting. We are taking forward further analysis to explore:
 - Is there a need for customers, or their representatives, to be given the opportunity to scrutinise each company's business plan? If so, which aspects of the plan should customer representatives examine? In addition, to what extent should this drive company/Ofwat decisions and add value?
 - What is the right platform for company-level scrutiny and challenge? Is the current CCG model the right one, or is there a better alternative? How can the independence and governance of such groups be improved? What information would they need to compare companies' performance to strengthen their challenges? Are CCGs listened to? How consistent is the quality of the process across different companies

2.6 To help encourage the water sector to improve the framework for price setting at PR24 and beyond, CCW will publish discussion papers later in 2020 and early 2021 that cover the most material changes we would like to see in the next price review.

2.7 The papers will consider options for improving customer representation though the process, and will also cover:

- CCW's assessment of customer engagement carried out at PR19 to highlight what worked well (and what did not) to help share good practice. This will be followed by a discussion document proposing an overall customer research framework for PR24.
- How any incentives for companies to produce high quality business plans (that lead to fast-tracking through the price review process) should also take into account companies' current and past performance in serving customers and delivering on their commitments.
- Ideas for improvements to incentives with the aim of driving companies to improve performance within an incentive model that may get greater support from customers



3. CCW's Overall Assessment of PR19

3.1 From a customer perspective, the outcome of the 2019 Price Review can be seen as broadly positive, due to lower bills in 2020-25 for many customers, stretching performance targets in many areas of service, and increased investment in resilience and the environment. This is shown by the high level of customer acceptability for Ofwat's Draft Determinations.

3.2 In July and August 2019, CCW carried out research into customers' views on the acceptability of the 'package' of prices and service improvements in the Draft Determinations³. This indicates:

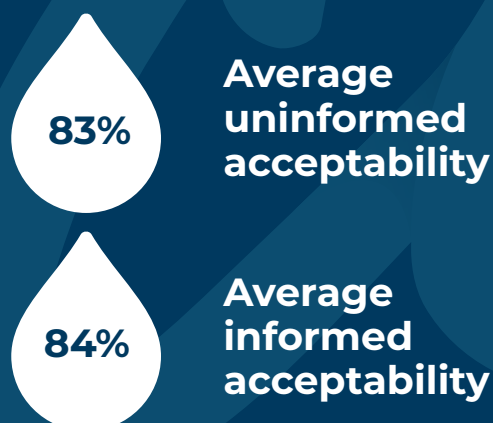
- An average of 83% uninformed acceptability and 84% informed acceptability for water and sewerage companies' customers.
- An average of 86% uninformed acceptability and 90% informed acceptability for water only companies' customers.

3.3 It is assumed that the Final Determination package would receive a similar high level of support, as the final package contained many of the same commitments to customers as the Draft.

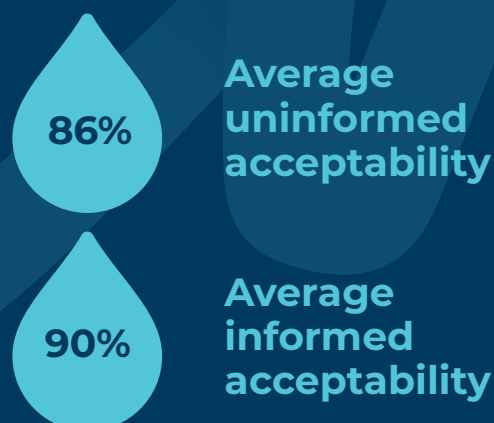
3.4 There was a significant increase in the quantity and quality of customer research by companies at PR19. In some cases, more immersive techniques were used to gather customers' views. Many companies combined varied sources of customer opinion (from qualitative and quantitative research, day to day customer contacts and external sources such as CCW's Water Matters research) to gain a more credible picture of the diversity of priorities and expectations of different customer groups. This has seen customer research evolve and its importance strengthened compared to earlier price reviews.

3.5 The Customer Challenge Groups (CCGs), which act as local stakeholder groups for each company (including CCW as a member) influenced the design and delivery of companies' customer engagement activities. In many cases, CCGs also influenced how customer evidence was interpreted to set service improvements and price proposals in business plans.

Customers' views on the acceptability of the 'package' for Water and Sewerage companies



Customers' views on the acceptability of the 'package' for Water companies



³ Delivered by DJS Research (Our Draft Determination Acceptability research)

3.6 Some of the key benefits that the Final Determinations delivered for customers are:

- Nine companies' bills will come down by 2025 after inflation (based on an assumption that inflation will be 2% p.a.). Eight companies will see modest price increases with inflation.
- Ofwat has reduced its assumption of the Weighted Average Cost of Capital (WACC). This is a significant part of Ofwat's price setting as companies' repayment of capital financing can account for up to a third of the average customer bill. The WACC was set at 1.96%⁴ in the Final Determinations, consistent with an independent recommended range commissioned by CCW (1.7% to 2.3%)⁵.
- Six companies⁶ plan to more than double the number of customers that are helped with some form of financial assistance by 2025. The other eleven companies will also significantly increase the level of assistance offered to customers.



- There is a significant increase in both performance targets (and the level of stretching performance many companies need to make to achieve them) in areas of service that are shown to be priorities in customers' opinions. This includes reducing leakage and water supply interruptions, reducing the risk of sewer flooding and pollution incidents.
- Ofwat applied a tougher efficiency challenge at PR19, reducing companies' proposed totex (total expenditure) in business plans by an average of 27% from the initial review of business plans to the Final Determinations. CCW wanted to see a strong efficiency challenge as (a) customers expect this from a regulator and (b) Ofwat should ensure comparatively inefficient companies are pressed to improve.

3.7 However, while this is broadly a good outcome for customers, some uncertainties and areas of improvement have been found in our assessment of the PR19 process and what it has achieved:

- There is a risk that companies may not be investing sufficiently in protecting their assets from failure in both the short and long term. It is unclear as to what extent the 2020-25 package of investment and service improvements will act as a milestone towards longer-term resilience.
- Business plans and Ofwat determinations did not explicitly show the level of asset maintenance expenditure. While asset maintenance is implied in the (mainly) stretching performance targets that cover asset health, there is no straightforward way to track whether companies are adequately investing in maintaining their assets.

⁴ On an RPI basis

⁵ Economic Consulting Associates recommendations for the Weighted Average Cost of Capital from December 2017 [here](#) updated April 2019 [here](#).

⁶ Northumbrian, South East, Southern, Thames, Wessex, Yorkshire

- While the increase in affordability assistance for customers covers the varied form of assistance on offer (social tariffs, payment matching schemes and debt advice etc.), the number of customers who will be assisted through social tariffs alone does not show as great an advance as will be needed. This is especially of concern if the number of customers at risk of affordability difficulties worsens in the years ahead.
 - While customers were engaged with more widely through the price review, there were some examples of where companies attempted to engage with customers on more technical issues (e.g. cost of capital, small company premium, investment decisions) with less convincing results. There were also many examples where it was unclear how customer evidence had influenced companies' business plans or Ofwat's decision-making in its Determinations.
 - As CCGs are largely funded by companies, they can be perceived as not independent and carry a risk of capture⁷. CCGs were also limited by the lack of comparative information they can access about business plans or company performance across the sector to inform their challenges to companies. It is also unclear to what extent CCGs influenced Ofwat's decision making in its Determinations.
 - The incentives for companies allowed for in Ofwat's PR19 methodology may not deliver an outcome that either is supported by the majority of customers or guarantees that a good outcome for customers will be achieved. While ODIs are designed to drive companies to deliver their commitments, these incentives received a low level of customer support at PR19 (in several areas of companies' research), particularly for rewards for what many customers see as 'the day job' for companies. The financial incentive on offer for companies to deliver a good quality business plan carries a risk that companies could collect a reward and subsequently fail to deliver their Final Determination commitments to customers.
- 3.8** The broadly positive outcome for customers shows that there is good platform to build on to make future price reviews even better for customers, and this report details the positive elements and suggests how to improve the less certain or weaker parts of the process and its outcomes.
- 3.9** Our overall aim is to build on the success of PR19, by addressing the areas that have raised concerns, and strengthening customer influence and stakeholder involvement at the 2024 price review and beyond.

⁷ CCW representatives are not paid to be part of CCGs

4. Customer research and engagement

4.1 Credible customer evidence needs to be used to inform both business plans and regulatory decisions. To achieve this, the ways in which customers' views are gathered and interpreted, and how this is used in business planning and regulatory decisions, is critical to delivering price determinations customers will support.

Improvements and achievements in PR19

4.2 There was a significant increase in the quantity of customer research undertaken by the companies through PR19, though not always matched by quality. Broadly there were a wide range of approaches to research and engagement used by companies, with the 'design' of the research programmes improved to make outputs more reliable through multi-stage valuation surveys and 'sense check' feedback loops.

4.3 Several companies used more immersive and observational behaviour-based techniques for gathering customer views including role play scenarios, and incorporating video and diaries to ground views more closely in experiences of services.

4.4 These innovations were used to complement the evidence from more 'traditional' quantitative surveys and qualitative interview and focus group based approaches. The water sector was already well versed in these techniques. At PR19, companies have used a wider range of approaches to enhance their understanding of customers including setting up online consumer research communities and embracing digital channels (e.g. sentiment analysis of social media data and the use of chatbots).

4.5 Presentation of some research materials since PR14 has also improved with more imagery and graphics, and more care taken to simplify wording to make the research more meaningful and engaging for participants.

4.6 In some cases, elements of 'co-creation' approaches were used to involve customers in business plans more proactively. These techniques have been used from discrete tasks such as designing bills, right up to co-creation of the actual business plan itself.

4.7 This approach is not about making choices from a largely pre-defined set of options (an approach companies have used regularly in the past). Ideally, it should be a creative process, where consumers and companies work together to tackle problems and enhance services where there is real scope to do so.

4.8 Several companies also had success in triangulating varied sources of customer opinion in order to build a better understanding of the diversity of priorities and expectations of different customer groups. Several companies successfully collated and triangulated evidence from sources including (but not limited to):

- Qualitative and quantitative research.
- Customer opinion gathered from day to day customer contacts with company staff.
- Online commentary by customers.
- Public events such as roadshows or exhibitions; and
- Consumer research by third parties such as CCW.

4.9 Different sources of evidence were also gathered at different times across the PR19 process, to track how customer opinion may have changed over time.

4.10 The framework CCW commissioned (in 2017)⁸ for triangulating varied sources of customer evidence to reach a credible and detailed picture of customers' views was applied effectively by several companies. The framework provided guidance on evaluating the value and weighting of each source of evidence, to establish a more detailed and diverse picture of customers' views and how they may change over time.

4.11 Most companies adopted multi-stage valuation approaches for PR19, the results of which were triangulated with other sources of customer evidence. These tested how customers valued services using a broader range of techniques, sometimes over several stages, than the one or two stated preference surveys used to measure the value customers place on different service improvement options at PR14.



4.12 The multi-stage approach allows companies to triangulate values across different research practices to smooth any outlying values and give greater confidence in the result.

4.13 Companies that CCW regarded as demonstrating good practice in applying triangulation at PR19 shared the following characteristics:

- Engagement/decision framework with multi-phase approach.
- Iterative use of triangulation practices to constantly refine understanding of customer views.
- Use of historical and operational data sources along with current research and engagement data.
- Third-party analysis of sources to limit confirmation bias.
- Showed clearly how the results of triangulation were used to justify business plan proposals.

4.14 While the above good practice saw the role of customer engagement evolve at PR19, innovation in research and engagement at PR19 was limited. Companies largely drew on examples from other sectors such as ethnography⁹ and gamification¹⁰.

4.15 Therefore, while there was not transformative change in customer engagement at PR19, we have seen a step change to improving the understanding of customers and improvements to make it easier for customers to engage with companies. This is a good platform to build on to introduce further innovation and improvement.

⁸. 'Defining triangulation and willingness to pay in the water sector' (July 2017)

⁹. Based on observing how people behave, for example using a product or service in their own environment

¹⁰. The use of game design in surveys, aimed at making them easier to engage with

Problems and challenges

- 4.16** Despite this positive ‘evolution’ of customer engagement, unfortunately, not all companies used the more innovative and effective techniques described. Best practice was not disseminated or shared effectively between companies.
- 4.17** The companies’ customer research was also inconsistent in that there was a diversity of research techniques used at different times, which meant research across the sector was not comparable. This was especially the case with research to measure customers’ views on core service areas, setting ODIs, and testing the acceptability of the business plan. More consistency would have allowed CCW, CCGs, Ofwat and others to more effectively assess how customer opinion on different issues compares across all companies.
- 4.18** CCW saw some examples of research materials that were overly complex, especially in relation to service performance targets and delivery incentives, with references to ‘stretching targets’ and ‘rewards’ and ‘penalties’. This can increase the cognitive load experienced by participants and lead to less credible results.
- 4.19** There are some examples of where companies attempted to inappropriately engage with customers on more technical issues, sometimes due to a challenge from Ofwat. Examples include issues such as the case for a small company premium on the cost of capital, or options for investment to address the need for future resilience. With issues that are challenging for customers to engage with, the results were less convincing.
- 4.20** There was also a limit on research tailored to meet the needs of non-English speakers and different ethnic communities whose relationship with water can be influenced by cultural and religious reasons. This may be a lost opportunity at PR19, especially in areas where English is less likely to be a first language, (dual language research was limited mostly to Wales) and where people have a culturally different perspective on water that will influence their views on services. Including the views of these customers is critical to achieving full participation from all sectors of the community
- 4.21** It is important that credible evidence of customers’ views and expectations is reflected in the outcomes the price review will deliver, in order to achieve Determinations that customers support, and leading to greater customer satisfaction and trust with the companies.
- 4.22** Unfortunately, it was not always clear in all company plans and Ofwat Determinations where customer evidence was used to inform decisions. This was particularly the case with the decisions on some Performance Commitment targets, investment and incentives.
- 4.23** This is because, even if a company has used customer evidence to justify proposed improvements, it is not always clear from business plans what has happened with some research or how findings are interpreted. While research may be referenced, it may not fully explain how it was used, or if superseded by other evidence in the process of triangulation.
- 4.24** Sometimes, a comprehensive research project seems to inform a very small subset of the outputs referenced in business plans. A lack of clarity about how some research outputs were acted on means it is hard to say if consumer influence is fully where it should be.



Recommendation 1

Ofwat should require companies to adopt the recommendations from our customer research report, 'Engaging water customers for better consumer and business outcomes', in particular:

I. Direct engagement with customers should inform price setting decisions, but customer research should better suit customers' needs, reflecting our evidence of what customers want to be engaged about – and what they don't.

II. Research material needs to be easy to understand for participants and should be inclusive so that the views of all types of customer are gathered.

III. Research should explore customers' expectations, priorities, and aspects of the business plan or determinations that customers can give a meaningful opinion on.

4.25 CCW commissioned this research to understand what customers want their water companies to engage with them about, and what they consider to be meaningful engagement. This found that many of the examples the participants saw of research for business planning purposes was not considered meaningful to customers.

4.26 This was predominantly because they did not feel that it was easy for customers to understand and give considered views because:

- The topic was too complex or not relevant to them (with the exception of some research about bill levels and acceptability testing); and/or
- They did not always feel that they would be listened to (except where the research was qualitative and someone from the water company was present) or that their views would make a difference.

4.27 Many customers felt that although they wanted to participate, they did not understand things well enough or that the research was so technical that decisions should be left to the experts. This was particularly the case with surveys where detailed information was provided to help people reach a view on future service levels. This research helps us to build a picture about how and where customer views can be successfully used in the business planning process.

4.28 There is no doubt that engagement with customers should continue, but this must be in a way that suits them, to reflect these recommendations, so companies can better understand their customers and use research techniques that suit their needs¹¹. The 'Engaging water customers' research sets out a framework for this, based on four different typologies of customer.



¹¹ This can be achieved at the development and piloting stage of the research, which should allow sufficient time for cognitive testing.



Recommendation 2

Business plan and Ofwat determination ‘packages’ of prices and service improvements should continue to be tested for customer acceptability in a customer-centric format.

Acceptability testing of business plans could be delivered centrally, independent of the companies, to allow for greater consistency and comparability. An industry-wide steering group should be created to drive this.

Ofwat should extend the consultation period for its draft determination from six to eight weeks to allow sufficient time for acceptability testing to take place.

4.29 It is important to test the ‘package’ of prices and service improvements that companies and Ofwat set to establish how acceptable they are to customers. Obtaining this feedback from customers allows time for changes to be made if customers reject what they are presented with. While companies’ commissioned research to test customers’ acceptability of their business plans, this was carried out at different times using varied techniques and sample sizes, so the results across companies cannot be compared.

4.30 CCW should have a role in developing and delivering research to measure the customer acceptability of PR24 business plans and Determinations as part of an industry-wide steering group that helps ensure there is consistency and the implementation of recognised good practice.



4.31 CCW was the only party that carried out consistent and comparable research across all companies at PR19, with research to test the level of customer acceptability of Ofwat’s Draft Determinations¹². Gathering the information required to carry out this research was extremely difficult in the short timescale allowed, despite planning and piloting the research months in advance. For PR24 it would make a huge difference if Ofwat would extend their consultation period by a couple of weeks from six to eight.



Recommendation 3

Best practice in terms of engagement techniques and triangulation should be shared across the sector. The benefits of such sharing should be recognised by the sector to counter the competitive culture that currently prevents companies from sharing potentially innovative ideas.

¹² [CCW – PR19 Draft Determination Research, February 2020](#)



4.32 In the autumn 2020, CCW will publish a paper setting out its views on customer engagement techniques used by companies during PR19. This highlights several areas of good practice within the sector, which can be summarised as:

- Better sense-checking of the 'direction of travel' for business plans to avoid outcomes that customers taking part in early research would not have envisaged or supported. As well as consulting 'fresh' customers, consulting the same group of customers throughout as decisions are made which change the shape of services and affect costs, or test acceptability (using a meaningful format) with a group of customers engaged much earlier in the process.
- Use of immersive research to increase engagement in the business planning questions. For example, asking people to try not to use water for a given number of hours before a research event, role play to step through the impact of long-term water supply interruptions, and extended immersive events with tours of water company buildings, question and answer sessions and a chance to pitch ideas to a senior Executive panel.

- Use of observational research to understand how individuals and households use and experience water and sewerage services, rather than relying on recall which is subject to several biases.
- Sharing of good practice for applying triangulation techniques to use multiple sources of customer evidence in a logical and transparent way.
- To support innovation, water companies should publish research materials and findings to make them accessible to all, to help inform the development of research, and demonstrate to customers how seriously they take engagement. A small step by one company can inform another step elsewhere.



Recommendation 4

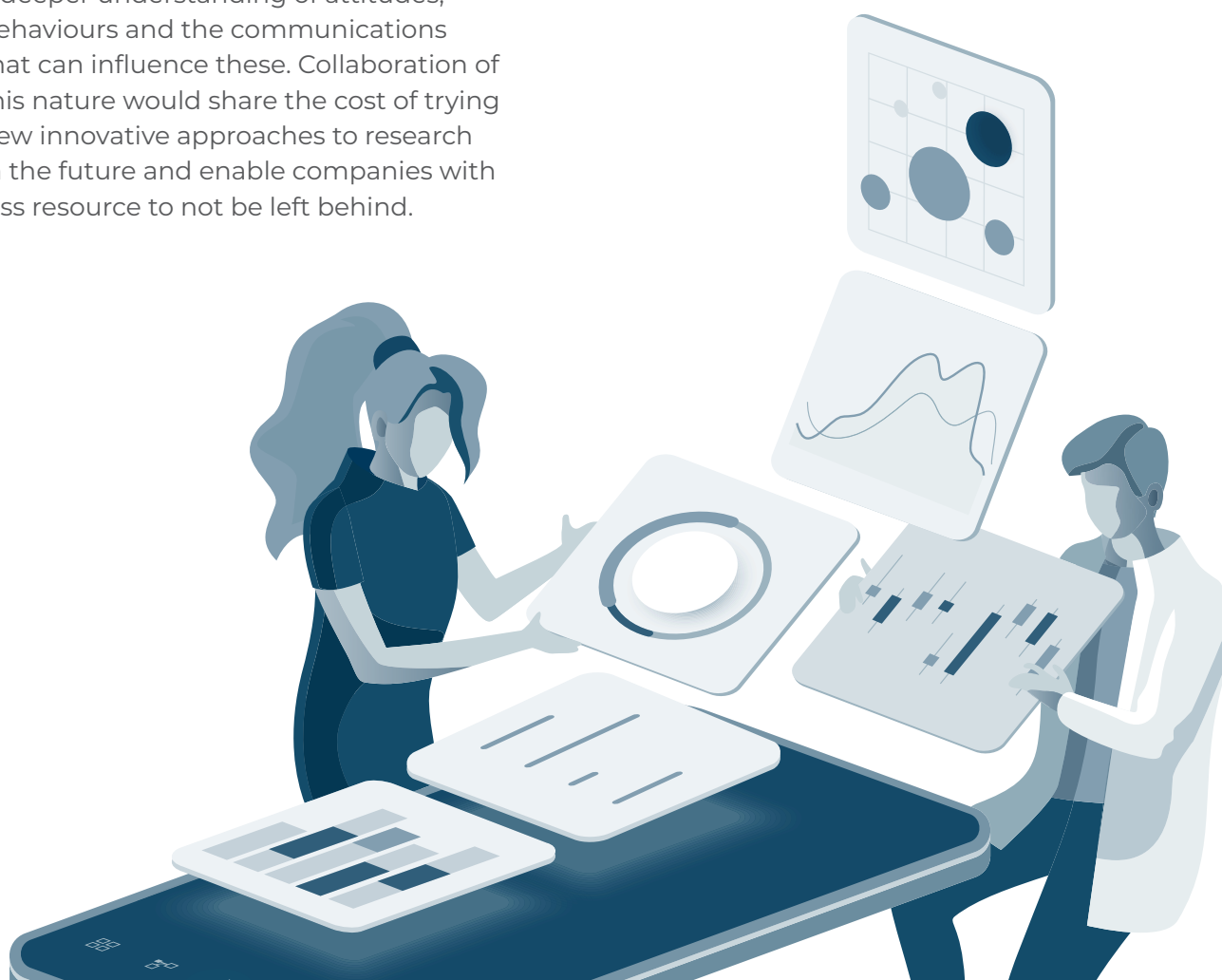
More research should be conducted centrally to allow for comparability. Areas include acceptability testing of business plans and core services that are common to all companies. CCW could play a key role in this.

Recommendation 5

The PR24 methodology should clearly direct companies to show how customer evidence will be used in decisions (or explain why if it is not used). Defra and the Welsh Government should also require Ofwat to be similarly transparent about its use of customer evidence

- 4.33** Across England and Wales, there were differences in customers' views on willingness to pay. Given that companies undertook their own research on these areas, it is difficult to determine if these differences in views were real or due to methodological reasons. Therefore, national research may be appropriate for some industry-wide topics. Where there are company differences, there would be more confidence that this is due to regional factors rather than the methodology of the research affecting how people value services.
- 4.34** There is also scope for companies to work together in collaboration. Our assessment found that larger companies undertook more research and engagement with their customers than smaller companies did. While quality is more important than quantity, more collaborative research may help to even out differences in the quantity of research conducted by larger and smaller water companies and support innovation. This would help the industry develop a deeper understanding of attitudes, behaviours and the communications that can influence these. Collaboration of this nature would share the cost of trying new innovative approaches to research in the future and enable companies with less resource to not be left behind.

- 4.35** Such large-scale engagement as seen at PR19 comes at a financial cost to customers, ultimately affecting their bill. Consequently, every piece of research and engagement must be used for maximum effect, ensuring that it is clear what each piece is informing or what has been learnt if it is not possible to act on the findings (e.g. if a novel or explorative approach has not delivered as expected).
- 4.36** Companies should also clearly explain to both Ofwat and customers how the results of the research have been used (especially to customers that have participated in the research). Ofwat should also be transparent in how it has considered the customer view, and to explain this to customers, companies, and stakeholders in its Determinations.



5. Ofwat's Price Setting Methodology

- 5.1** Ofwat's price setting methodology sets out the regulatory approach to determining how much revenue can be collected from customers over a five-year period. It also shows how service performance targets will be set and how Ofwat will assess and allow future investment. The methodology is important for customers as Ofwat's decisions set prices and service delivery standards for years to come. Historically Ofwat's decisions have been over-generous towards companies, at customers' expense¹³.

Improvements at PR19

Cost efficiency

- 5.2** Ofwat applied a tougher cost efficiency challenge at PR19, reducing companies' proposed totex (total expenditure) in business plans by an average of 27% across the PR19 process, from the initial assessment of business plans to Final Determinations. CCW wanted a strong efficiency challenge as (a) customers expect this from a regulator and (b) Ofwat should ensure comparatively inefficient companies are pressed to improve.

Performance Commitments (PCs)

- 5.3** CCW supported Ofwat in setting ambitious stretching targets in PCs that reflected customer priorities. The core set of 14 common PCs reflected universal customer priorities complemented by a small number of bespoke PCs based on additional priorities identified through individual companies' engagement with customers.

- 5.4** The PC targets that have been set should stretch companies towards industry-leading 'upper quartile' performance. While these targets are based on companies' own performance and unique situations, they are in most cases robust and stretching to avoid the 'easy' outperformance by some companies that occurred at PR14.

- 5.5** CCW also welcomed the increased ambition with the inclusion of common PC on Priority Services Registers (PSRs) for vulnerability.

Customer Experience measure (C-MeX)

- 5.6** We believe that an increased regulatory incentive based on consumers' views could help further drive customer service and innovation. Consequently, Ofwat's introduction of C-MeX is a positive step forward to track customer satisfaction and complaint handling performance. However, we have some suggestions on how to improve its effectiveness detailed at Recommendation 7 below.

Cost of capital and financeability

- 5.7** It is important that the Weighted Average Cost of Capital (WACC) enables companies to finance their functions and offers investors a reasonable return, but avoids the scope for the significant outperformance seen as a result of earlier price reviews. This saw customers pay more than they should have, and has a negative effect on customers' trust and confidence in the sector and how it is regulated.

- 5.8** Ofwat set a WACC for 2020-25 that was broadly in line with the recommendations of CCW's independent consultants¹⁴. Despite some commentators' concerns about the WACC for 2020-25 (a third lower than at PR14), listed companies saw significant increases in their share prices following Ofwat's publication of the Final Determination. While we welcome that the WACC was set within the range recommended by our consultants, we believe that there was scope for this to be set even lower.

¹³ This is shown in the National Audit Review of Economic Regulation of the Water Sector from 2015 [here](#).

¹⁴ ['CCWater recommends Weighted Average Cost of Capital for PR19'](#) (December 2017). [Updated version \(April 2019\)](#)

- 5.9** With regard to the small company premium (SCP), CCW was supportive of Ofwat's evidential tests, particularly that the value smaller companies get through any increment on the WACC by virtue of their size is fully compensated for by the value of the benefits for customers. It would look perverse to customers if there were a blanket inclusion of SCPs for all smaller water only companies, as it would fail to incentivise those companies to find ways of adding value or of mitigating any additional costs caused by their scale.
- 5.10** We also agree that with regard to embedded debt, companies should bear the risk of being locked-in to higher interest when they appear to have been less prudent in their financing decisions than their peers.
- 5.11** CCW supported Ofwat's financeability assessment based on a notional capital structure as it is not for Ofwat to use financeability levers to support the credit metrics of companies' actual capital structures. This is particularly important for those companies adopting significantly higher gearing than Ofwat's notional capital structure. It is companies and their investors - rather than customers - that should bear the risk of a company's choice of its actual capital structure to the extent that it departs from Ofwat's notional capital structure.

Problems and challenges

Complexity

- 5.12** The price review is a lengthy and complex process. This makes it difficult for stakeholders and customers to engage with it. For PR19, consultations concerning the approach began in May 2015, just one month after the price limits set at PR14 came into force. As such, there is a perpetual price review cycle.
- 5.13** With over 1,000 documents published, the price review can be overwhelming, hugely data intensive and impenetrable to the layperson. In addition, it is not readily understood by some Customer Challenge Groups, whose members lack the required expertise in some areas.

Long-term context

- 5.14** It remains unclear to what extent Ofwat's Final Determinations allow appropriate investment to address long-term pressures relating to the resilience of the sector, climate change and customer affordability.
- 5.15** Some reactions to the Final Determinations, and indeed the PR19 process itself, seem to regard the approach as being 'short termist' in nature. The suggestion is that this is at the cost of long-term resilience and that the future cost to customers could be higher than addressing long-term resilience now.

Ofwat's business plan tests

- 5.16** Ofwat's business plan tests appear to have been weighted in favour of cost efficiency and financeability with the tests based on past customer service performance, customer engagement and customer satisfaction having less weighting in this process.

5.17 As part of CCW's feedback on Ofwat's draft PR19 methodology consultation¹⁵, we indicated that the nine tests that Ofwat proposed covered most of the key measures to assess past performance. However, it would have been helpful to know how much weight was attached to each individual test. Our perception is that the efficiency test was paramount in Ofwat's thinking and the remainder were secondary issues.

5.18 In response to Ofwat's draft PR19 methodology, we also asked for confirmation that customer evidence would be taken in account in all of the key tests, not just the ones that more directly relate to customer engagement. We have not seen evidence that this has been the case in all areas.

Asset maintenance

5.19 Business plans and Ofwat's Determinations did not explicitly show the level of asset maintenance expenditure. While asset maintenance is implied in the (mainly) stretching targets for asset health related PCs, there is no straightforward way to track whether companies are adequately investing in maintaining their assets.

Leakage reduction

5.20 The 15% 'blanket' leakage reduction target, while supported by CCW at the time, could be seen as arbitrary. Companies' positions are very divergent in terms of both their leakage levels (both absolute and normalised by mains length/properties) and their water resource positions. We question whether a blanket approach should be applied at the next price review.

Customer Experience measure (C-MeX)

5.21 While CCW welcomed the introduction of C-MeX to track customer satisfaction and complaint handling performance, we remain concerned that customer complaint levels have been de-prioritised within the measure. As a result, companies could get access to financial rewards despite high complaint numbers.

Outcome Delivery Incentives (ODIs)

5.22 CCW understands the regulatory rationale for incentives within the water industry, to drive innovation and reward leading performance. However, customer research often shows that many customers do not support the use of ODIs, especially in areas where companies are perceived to be receiving rewards for 'the day job', or for meeting targets for reductions in the numbers of incidents that customers believe should be avoided altogether. For example, avoiding sewer flooding or pollution incidents.

5.23 Customer acceptability of the Draft Determinations also dropped by around 10% when the potential impact of ODI payments was presented.

5.24 We understand the rationale for in-period ODIs is to apply penalties for poor performance as soon as possible but even so; there is a two-year lag before performance is reflected in customers' bills.

5.25 Taking into account evidence that customers prefer bills that are stable, in-period ODIs have the potential to cause significant bill volatility for customers. To mitigate against the potential for excessive ODI reward to increase customers' bills, CCW welcomed the 3% cap on ODI outperformance¹⁶ at PR19, beyond which the outperformance is shared with customers.

¹⁵ [CCW's response to Ofwat's consultation on the Draft PR19 Methodology \(August 2017\)](#)

¹⁶ A percentage of the Regulated Return on Equity (RoRE)

- 5.26** We also have concerns regarding how Ofwat's £200m innovation fund fits in with ODIs. There is a danger that all customers pay for an innovative project that leads to improvements in areas for companies, which mean they get further rewards. Customers could then pay again for the improvement in performance through ODIs.

Customer affordability and vulnerability

- 5.27** CCW welcomed the 100% increase in the level of affordability assistance offered to customers in 2020-25, and stretching targets to increase Priority Service Registers (PSR). However, we consider that more could be done in these areas because even with this growth in financial assistance, there will still be more than 1 million households in need of assistance who will not receive support. The level of ambition between companies also differs, further accentuating the uneven distribution of the help that is available. The level of help available to customers varies considerably depending on where they live.

Incentives for high quality business plans

- 5.28** Ofwat's financial incentives should encourage companies to develop high quality business plans. At PR19, companies were incentivised to attain 'Fast Track' or 'Exceptional' status at the initial assessment of business plans¹⁷. Companies whose plans received this status obtained a financial reward and reduced intervention by Ofwat when Draft and Final Determinations were set.
- 5.29** However, there is a risk that companies could collect a reward for this and subsequently fail to deliver their Final Determination commitments to customers.

¹⁷ United Utilities, Severn Trent and South West achieved 'Fast Track' status at PR19. No company business plans were assessed as 'exceptional'



Recommendation 6

Ofwat should consider simplification of the price review process. This would make it more 'user friendly' for its stakeholders and, we believe, improve stakeholder input and challenges to companies.

- 5.30** A consequence of the complexity of the price review process is that it can add to the complexity of the subsequent monitoring regime. We think that Ofwat should consider simplification of both the price review process and the monitoring regime.

- 5.31** The regulator currently asks companies for a huge amount of data and we believe it needs to undertake a review of these information requirements. Identifying areas where Ofwat can lessen its requirements would allow it to focus on areas of material impact on customers



Recommendation 7

C-MeX should be strengthened in terms of its potential financial value and its target for complaint handling performance (as this gives companies access to the C-MeX incentive payments).

5.32 If Ofwat retains the use of ODIs, including CMeX, for PR24, it is CCW's view that this incentive could be strengthened and separated into two; Complaints performance with satisfaction with contacts (including complaint numbers) and satisfaction with service.

5.33 At the very least, we would like complaint numbers to be included for all C-MeX incentive rates, not just for the gateway to the higher incentives.

5.34 If this incentive is large enough, it would increase the focus on delivering for consumers, which could help to drive innovation in the most important areas. C-MeX could also be used as a gateway, where companies cannot gain rewards for other ODIs unless they have performed well in this measure.

5.35 By aiming to mimic what competition does in other highly competitive sectors, this incentive could force companies to reflect on the different needs and expectations of residential customers and to better segment their customer base.



Recommendation 8

The PR24 methodology should use improved incentives that are viewed as acceptable with consumers and drive the right behaviours in companies.

5.36 There is a need to explore how incentives:

- Could more effectively drive customer service improvements and customer satisfaction.
- Can achieve greater customer support.
- Allow outperformance to be shared with customers.

5.37 We would like to see the industry identify and explore the pros and cons to customers of alternative incentive models. While we acknowledge that this means testing potentially complex issues with customers, it is possible to engage customers on the principles of using incentives and the potential impact these have on their bills.

5.38 There may also be adjustments to the current ODI and C-MeX incentives that could increase the acceptability to customers whilst driving companies to improve. Examples of this are:

- Using C-MeX as a gateway to other ODI rewards. This would mean that companies would need to attain a high level of customer satisfaction under this measure, alongside a strong complaint handling performance, in order to get access to other rewards achieved in other areas of the service.
- A 'penalty only' ODI regime, as research by several companies through PR19 (and our own research to measure the acceptability of the Draft Determinations) shows that customers have a greater issue with paying rewards.
- ODIs could be limited to a smaller number of priority PCs that reflect the most important areas of service customers value. This smaller set of ODIs could carry greater financial value than currently.



Recommendation 9

On affordability, CCW would like to see more commonly applied PC measures and incentives to cover:

- Customers' views of the affordability of their bills.
- Customers lifted out of water poverty by support.
- Company contributions to funding affordability assistance.

5.39 CCW will conduct further analysis and industry engagement to explore potential future incentives that may better reflect customers' priorities and meet with their approval.

5.40 This would incentivise companies to engage customers further to improve their evidence of the level of water poverty, and how effectively companies are assisting customers in this situation.

5.41 At PR19, a small number of companies committed to contribute their own funds to support social tariffs, and not rely solely on the cross-subsidy provided by customers. CCW would welcome companies using more of their own funds to support the delivery of customer assistance.

5.42 Tracking the number of customers signed up to PSRs only goes some way toward addressing customer vulnerability, particularly when many customers experience forms of vulnerability only temporarily. Measuring awareness and satisfaction will drive companies to ensure that the assistance they offer meets customers' needs and the help available is communicated to customers effectively.



Recommendation 10:

CCW welcomed the common PC at PR19 to measure customer PSRs, but would like to see new commonly applied PCs on vulnerability to measure and incentivise:

- Customer awareness of the vulnerability assistance that is available.
- Customer satisfaction with the vulnerability assistance provided.
- Customer satisfaction (amongst all customers) that services are accessible.

5.43 There needs to be clarity to assure customers and stakeholders alike that Ofwat's approach neither stores up problems for the future, nor makes things more costly for customers over the longer term.



Recommendation 11

Ofwat's framework for PR24 should encourage companies to produce business plans that are considered in the context of a longer-term strategic plan (as with the Strategic Direction Statements required at PR14).

This long-term strategy should address future challenges such as asset resilience and the effects of climate change on delivering the service customers expect. This will mean future price controls are more clearly seen as part of a longer-term strategy.

Ofwat also needs to be more explicit in how it will trade off short and long-term resilience in service performance, affordability and investment needs in the PR24 methodology.

There should be consideration of whether a five-year price control is appropriate in this context. Could there be a longer-term price determination with periodic reassessment of cost allowances and PC targets?

5.44 We expect Ofwat's framework to encourage companies to produce business plans that are considered in the context of a longer-term strategic plan that addresses future challenges such as asset resilience and the effects of climate change on delivering the service customers expect. Both the business plan and strategic plan should identify short and long-term outcomes that are defined by evidence of customers' views taken from customer research, complaints and engagement.

5.45 Long-term strategic plans should show how investment could be paced to provide bills that will remain within an 'envelope' of long-term customer acceptability. Both plans should also be subject to scrutiny and challenge by Ofwat's stakeholders.

5.46 In the context of innovation, Ofwat itself recognises that the current five-year regulatory cycle could be a barrier. This is because the benefits can sometimes be perceived as less clear or less likely to accrue within a single regulatory period.

5.47 Ofwat should consider the pros and cons of alternatives to the five-year price control process in terms of delivering for customers in terms of both costs, outputs and bill implications. This should consider whether there should be:

- A stronger long-term strategic context for five-year price determinations.
- More challenging tests by Ofwat for evidence of long-term risks.
- Longer price controls

5.48 We are concerned that there is a risk that companies may not be investing sufficiently in protecting their assets from failure in both the short and long term.



Recommendation 12

Ofwat should continue its high level of efficiency challenge for PR24, increasing the efficiency benchmark gradually towards the 'frontier', taking into account evidence that several of the better-performing companies are able to be efficient and outperform their PC targets.

Recommendation 13

If the process is to be streamlined so that companies with a comparatively good performance are 'fast tracked', customer performance measures should be included in this (e.g. CCW's WaterMark).

The assessments to determine the business plan status should also take into account a company's past delivery for customers, as well as its proposals for the future. There should also be a 'claw back' mechanism that ensures any incentive reward for a good quality business plan is returned to customers if companies fail to deliver.

5.49 We do not want to see companies given financial rewards 'up front' on the promise of future delivery, as this is not in the best interests of consumers. We have observed during the 2015-20 price control period that in some areas Affinity Water, which had 'enhanced' status for its business plan at PR14, failed to deliver on its promises.

5.50 If up-front financial incentives continue to be included in the package, there should be a claw back mechanism in place to refund customers where companies do not deliver on the promises they have made to customers.

5.51 In any future streamlining of the price review process for companies who meet certain criteria, we would like to understand on what basis Ofwat would consider streamlining the price review process for companies with a good record of accomplishment. We would like assurance that customer performance measures are taken into consideration, such as CCW's Water Matters data, to ensure that customers views are part of this decision.

5.52 Ofwat also needs to consider using collaboration and innovation as part of the test in order to gain Fast Track or Exceptional plan status at the next Price Review. If this expectation is set out now, it will ensure companies are embedding innovation and collaboration into company culture.

5.53 Ofwat should set out the relative weightings of each of its tests, and how it arrived at them, in advance of applying them to companies' business plans. At the next price review, we would therefore like to see the weighting of each test in advance and clear evidence that customer evidence is taken into consideration for every test, or an explanation of why this is not appropriate. We also believe that customer acceptability is a key success measure of the price review and therefore this should be reflected in the tests for each company's plan.



Recommendation 14

The nine tests Ofwat applied at PR19 cover the scope of the plans, but need to show what weighting is given to each individual test. Customer evidence should also demonstrably be taken into account in all the tests, unless Ofwat is clear about why this would not be appropriate.



Recommendation 15

The PR24 methodology should be more explicit in setting determinations that show to what extent assets will be maintained, and consider whether asset health measures alone are sufficient. There is a need to ensure that companies are challenged to maintain their assets (and be held to account if they do not), as many customer priorities are linked to these activities.

Recommendation 16

PR24 should see individual leakage targets for each company that take into consideration environmental and climate change impacts, as well as consumers' views.

Recommendation 17

CCW will continue to commission an independent view of the Weighted Average Cost of Capital (WACC) that will take account of market evidence and most recent regulatory precedence. The WACC is a critical input to the price setting process as it has a material impact on bills.

Ofwat should take account of the range recommended by CCW's analysis when setting the WACC at PR24.

Recommendation 18

If future financeability constraints emerge, CCW will look for assurance from Ofwat that 'Pay as you go'/RCV run-off levers remain in customers' best interests rather than alternatives such as a lower gearing assumption, a higher proportion of index-linked debt or constraining dividends.

Where companies have received financeability uplifts, outperform RoRE (the Regulated Return on Equity) and fail to deliver on their commitments to customers Ofwat should consider clawback of the financeability adjustment.

5.54 We welcomed the stretching 15% leakage reduction target set by Ofwat at PR19. Leakage is a key customer priority and clearly impacts their own behaviours, and therefore targets need to be stretching but also company-specific. This should take into account the companies' short and long-term supply/demand forecast and environmental factors as well as customers' views.

5.55 It is important that the impacts on inter-generational fairness and stability of bills are considered in this regard. Where these approaches advance revenue from future customers, it is important that the approach is revenue-neutral.



Recommendation 19

Any post-implementation review by Ofwat of the Direct Procurement option must establish the benefits for consumers and whether some proposals should ultimately be taken out of the price control process. There must be adequate safeguards in place to avoid passing risks to customers of financing or service failures.

5.56 Any benefit to a company from financeability adjustments should help ensure commitments to customers are delivered, and should not have an implication that revenue may need to increase (at customers' expense) at future price controls.

5.57 Our underlying concern was that this approach could lead to a lot of additional effort for companies with very little reward for customers. This additional effort could detract from companies focussing on more material consumer issues. Any post-implementation review should establish if this has been the case.



6. Customer Representation

- 6.1** During the 2019 Price Review, CCGs had a role to represent the interests of customers in the process of scrutinising and challenging the quality and application of consumer research within company plans.
- 6.2** Each company had a CCG engaging with it, with guidance provided by Ofwat to the CCGs to assist them in scrutinising and challenging the evidence of customers' views used to build business plans.
- 6.3** Ofwat's 2016 Customer Engagement Policy Statement and the subsequent Aide Memoire to CCGs set out its expectations for CCGs during PR19 as follows:
- Independent challenge to companies and independent assurance of customer engagement and how well it is reflected in plans.
 - Not a substitute for customers' views.
 - CCGs not expected to endorse a company's plans.
 - Ofwat expected challenges to be highlighted, including any that remained unresolved.
- 6.4** Ofwat's guidance required CCG Chairs to be independent of any particular group, that CCW must be involved, and that EA and DWI must figure significantly in the process (without necessarily being full members). Ofwat also recommended including representatives from a debt advisory group.

Improvements and achievements at PR19

- 6.5** Most of the CCGs had a clearer influence at the earlier business planning stage of PR19, especially in the way CCG challenges influenced the companies' customer engagement activities, triangulation of the evidence gathered, and how this was interpreted to set service improvements and price proposals in business plans. However, the level of CCG influence on Ofwat's Determinations is unclear.
- 6.6** Some CCGs structured their working arrangements effectively to adapt to the high volume and complexity of information they needed to scrutinise and challenge. Sub-groups were set up for detailed scrutiny of important areas, which helped CCGs find sufficient resource to invest and challenge companies' proposals.

Problems and challenges

- 6.7** CCGs can be seen as local stakeholder groups, rather than as a customer representative group. Consequently, there is a risk that CCG members could represent their own specific interests, not always focused on what is best for customers.
- 6.8** As CCGs are largely funded by companies, they can be perceived as not independent and carrying a risk of capture¹⁸. The CCGs' relationships with the companies can mean that the companies tend to 'set the agenda', which runs the risk of CCGs focusing on less material issues for customers and giving insufficient attention to more significant issues.
- 6.9** In some cases, CCGs were keen to present a united front so internal disagreement on company proposals would be 'smoothed over'. CCG reports could have highlighted where some members had a different view, but in cases where the CCG wanted to present a unified view, some equally valid minority perspectives may have been omitted.

¹⁸. CCW's CCG members were not paid for this role during the PR19 process

6.10 CCGs were also limited by the lack of comparative information they were able to access about business plans or company performance across the sector. Several companies did not allow their CCGs to share information with others, preventing challenges to companies that would be informed by comparative analysis.

6.11 There were significant differences in the way CCGs appeared to interpret the guidance set for them by Ofwat. While CCGs' primary role was to look at customer engagement and how its evidence was used, some went beyond this and considered issues relating to investment, costs and incentives. It is unclear how or where Ofwat took into account commentary on these issues in the CCGs' reports when making its Determinations.

6.12 CCW encouraged CCGs to maintain a 'challenge log', to effectively track queries and challenges made to companies and how well companies responded. Some CCGs were reluctant to include accurate challenge logs, so CCW had to press the issue and keep its own records.

CCW's survey of CCG members

6.13 To inform our review of PR19, in the autumn of 2019 CCW conducted an online survey of CCG members to explore their views of the PR19 process and the CCGs' role within it. Thirty-three CCG members responded to our anonymous survey.

6.14 The majority (75%) rated the process at four or five out of five overall, but almost all had suggestions for how the process could be improved. Some also questioned whether the time and resources devoted to CCGs by their members and the companies was worth it:

"There needs to be real consideration about whether the format actually adds anything".

"I'm not sure how much value the CCG process really added to the company's business plan, in comparison to an effective process of expert peer review from practitioners in the market research field and an audit from an expert or two regarding the translation of customer research outputs into business planning decisions."

6.15 CCG members highlighted customer engagement, environmental issues and customer vulnerability as issues where CCGs played an important and effective role.

6.16 Several respondents did highlight their confusion with what the CCGs' scope was or should be. Many felt that Ofwat needed to be clearer about what it wanted from CCGs and how it uses the information that it gets from the groups. CCG members felt that Ofwat was distant from the process and many respondents commented that they would have welcomed the regulator taking a more active role.

6.17 Many respondents to the survey also felt that the bulk of the CCG's work often fell on one or two members. Those without water industry experience sometimes felt overwhelmed by the scale and complexity of the information they were required to comment on.

“I think the CCGs are under-resourced. The volume of work that is required for a price review inevitably means that the vast majority falls on those who are integral to the Water Industry i.e. CCW personnel and the relatively few members who actually understand how the industry works are prepared to put in the large amount of time required to have an effective input.”

6.18 The survey responses also highlighted a lack of diversity on CCGs. Members tended to be university-educated professionals. There was an overall lack of representation of minority ethnic groups.

6.19 Some questioned the catch-all name of the groups (Customer Challenge Groups), saying that CCGs tend in fact to be stakeholder groups representing specific interests, not always focused on what is best for customers.

6.20 CCG members questioned how valuable Ofwat found their work as they felt it was not clear how CCG reports were used (or not) in the regulator’s decision-making. Lack of transparency around the impact of their work led to some cynicism about the process.

“I have the impression Ofwat does not trust the views of CCGs and was dismissive of CCG concerns...”

6.21 Several CCG members also had a view that there needed to be earlier guidance on their role and for the reports to be submitted, later than companies business plans to avoid rushed or incomplete analysis of the company’s proposals.

“The CCG had very little time to consider those aspects of the Business Plan which were developed last, especially the performance targets and ODIs, and the research into acceptability. And in the subsequent phases (Ofwat’s Initial Assessment of Plans and then Draft Determinations), the time allowed to the water company was inadequate to permit best practice research, let alone for the CCG to challenge the research. As we said on our report to Ofwat on the Draft Determinations, “Given a five-yearly schedule for price reviews, we question the need for such tight deadlines.”

6.22 Recruiting CCG members – and keeping them once the time commitment becomes clear – was occasionally an issue for the groups. CCGs with lack of time/expertise to comment on materials in a meaningful way ran the risk of losing credibility.

6.23 Ofwat’s customer engagement policy said the regulator would give more weight to CCGs’ evidence and views if Ofwat had received assurance on governance issues such as appointment process, remuneration and expertise acquired. However, it is unclear to what extent Ofwat assessed CCG governance at PR19. Similarly, it is unclear how Ofwat took account of CCG reports in its Determinations.

6.24 CCW’s CCG survey results are one source of information used to develop the recommendations below. We also used the considerable experience from our team, Local Consumer Advocates and Regional Committee Chairs to inform our assessment and recommendations



Recommendation 20

Further consideration should be given as to whether CCGs are needed in future price setting. We are taking forward further analysis to explore:

- Is there a need for customers, or their representatives, to be given the opportunity to scrutinise each company's business plan? If so, which aspects of the plan should be examined? In addition, to what extent should this drive company/Ofwat decisions and add value?
- What is the right platform for company-level scrutiny and challenge? Is the current CCG model the right one or is there a better alternative? Does there need to be one group per company or regional or 'England and Wales' level groups that can undertake more comparisons?
- How to improve the independence and governance of such groups. For example, could groups be funded independently, possibly based on fees collected from companies?
- The need to improve the 'tools' available to groups – comparative information on track record / performance coupled with clearer guidance and information from Ofwat.
- How more clarity from Ofwat is needed to show how the views of any future model for consumer representation will be used within decision making at future price reviews.

- 6.25** The research CCW commissioned on 'Engaging customers for better outcomes' shows that customers expect water companies to understand their experience of day-to-day services and their priorities for future service improvements and consequently bills. As such, to meet these expectations, an independent 'platform' for scrutinising and challenging how companies gather and use such evidence in designing their business plans would have benefits.
- 6.26** Our assessment of PR19 shows that, while CCGs had an influence on company plans, risk associated with their governance, independence, lack of comparative information to inform challenges, and uncertainty on how their analysis and views were used in Ofwat's Determinations, means a review of their role is needed ahead of PR24.
- 6.27** CCW will work with stakeholders to look at how customers' views are represented in other regulated sectors and will publish conclusions later in 2020.



7. Conclusions and next steps

7.1 CCW's 'lessons learned' report highlights where the 2019 Price Review saw effective improvements to the process in terms of gathering evidence of customers' views, the setting of PCs and challenges to companies' proposed performance and costs. Overall, there was a stronger customer influence on the outcome compared to PR14.

7.2 However, there is room for improvement and the 20 recommendations detailed in this report would evolve the price setting process further to strengthen the customer voice and influence further at PR24 and beyond.

7.3 CCW will engage with the water companies, Ofwat and other stakeholders involved in price reviews to help build an improved approach at PR24. In doing so, we will also publish further discussion papers in late 2020 and early 2021 to explore some of the issues raised in this report. Our aim is to inform and encourage debate in the water sector on improving the price review process to increase the customer influence, and will specifically cover:

- CCW's further assessment of customer engagement carried out at PR19 to highlighting what worked well (and what did not) to help share good practice.
- A framework on how to improve the way customers' views are represented when engaging with companies and Ofwat through the price setting process.
- Ideas for improvements to incentives with the aim of both driving companies to improve performance within an incentive model that may get greater support from customers.
- How any incentives for companies to produce high quality business plans should also take account of companies' past performance in serving customers.

7.4 We hope that through this dialogue with our stakeholders we can look ahead to a price setting process at PR24 that will see even greater benefits for both current and future customers.





The voice for water consumers
Y corff sy'n rhoi llais i ddefnyddwyr dŵr

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