

IAP Response

Ref B2.5.WSH.OC

Information on Supplementary Customer Engagement

1 April 2019

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1. Ofwat's IAP challenge on customer research

In its IAP publication, Ofwat requested further customer research in a number of areas, notably on the acceptability and affordability of our overall ODI package, and on long-term bill profiles. We were also asked to provide further evidence of customer support for a number of elements of our ODIs scheme. As a result of these challenges we are commissioning further customer research.

2. Background

While not impossible, we learned during our PR19 Business Plan preparation that it is very difficult to engage with customers meaningfully on the topic of ODIs. Members of our CCG themselves found the topic challenging, and advised us that customers may not be able to provide meaningful feedback on this issue. Nevertheless, we commissioned a piece of qualitative research on ODIs, with focus groups held in two locations, and on two separate occasions, to try to provide some indications of customers' views on this topic.

We designed the research carefully to ensure that customers understood how ODIs fit into the broader regulatory framework in a way that was meaningful for them. This took up considerable time in the workshops, and meant that not all of our measures could be covered in detail. However, some customers did engage on the topic and provided some valuable input.

Customer research on the topic was complicated for us, particularly, by Welsh Water's non-shareholder model. This makes it difficult for customers to understand why financial incentives were appropriate for us. This also generated a 'built in' sense of scepticism, resignation and confusion when evaluating propositions posed to them.

Qualitative research has a clear advantage over quantitative research on this topic, as it allows time to explain complex concepts to customers. However, it suffers from the drawback that the strong views of a minority of customers can unduly influence the views of the majority. We therefore interpreted the reported results of our initial customer research not as a binding 'road map' for our ODIs scheme, but as a general guide to the direction we should be taking. We also took into account wider information, including Willingness to Pay, the views of the CCG and other stakeholders, and data on customer prioritisation of measures, in designing our ODIs scheme.

This meant that in some cases our proposal may have appeared to go against the results of our customer research on ODIs, when taken at face value. However, overall we attempted to take a reasonable and justifiable approach, taking into account wider information.

We have now been able to examine what other companies did in the challenging area of customer research on ODIs. In light of this information, we have decided to undertake a further piece of research. We have drawn in particular on Anglian's approach, and are working with Accent Research who worked with Anglian on their ODIs and acceptability research. This will be a piece of quantitative survey-based research.

3. Timing of the research and CCG engagement

Ofwat asked for the results of any additional customer research to be submitted as part of our IAP response on 1 April. We met with our CCG on 11 February, shortly after the publication of the IAP on 31 January and discussed this request with them. The CCG was strongly of the view that it would not be feasible to design, implement and evaluate the results of a high quality piece of customer research in time for 1 April. It was further agreed that, in line with all of our customer research on PR19 up to this point, the customer research must be robust and meaningful for customers, and as such would need sufficient time to be thought through, with an opportunity for the CCG to provide feedback on the survey.

We would also need sufficient time to adjust the relevant elements of our Business Plan in order to respond to the results of the research.

As a result we informally fed back our intention to Ofwat to proceed on this basis, and that we would plan to submit the results of the research, and any implications in terms of our ODIs scheme and anything else impacted, by 30 April. This remains our position.

The CCG met again on 11 March to review our planned IAP response and to discuss the approach to the research. Members of the CCG have since then provided feedback on a draft of the survey questionnaire. The CCG will meet again in April to consider the results of the research and the company's proposed response.

4. Scope of the research

The research has been designed to cover the following issues raised in the IAP.

Action table reference	Topic	Comment
WSH.AV.A1	Long-term bill profiles for the 2025-30 period.	The research will test the acceptability and affordability of our proposed bill profile for the period 2020-25 and 2025-30 taken together. Taking advice from our research consultants, we believe this is the only meaningful way of asking customers about their views on a period starting 6 years away from the present.
WSH.OC.A3	The company should provide further evidence why it set financial ODIs for PCs where customers preferred non-financial PCs.	The research will test customer views on ODIs for these PCs.
WSH.OC.A4	The company should provide further evidence, either from its own customer base or wider industry studies, to demonstrate that the ODI incentive rates it proposes are reflective of customer valuations or willingness to pay for each financial ODI proposed.	We set out our overall approach to revising our ODIs package in ref B2.WSH.PD.A2. The research will provide further information on the importance customers place on financial incentives for some of the PCs. Our proposed ODI rates may be

		adjusted in light of this new information.
WSH.OC.A6	The company should provide further evidence that it has tested the acceptability and affordability of the overall size of its ODI package with customers and there should be a clear line of sight from customer engagement and valuations to the final ODI package proposed.	The research will test the affordability and acceptability of the impact of our proposed ODI range on bills.
WSH.OC.A7	The company should provide sufficient evidence that its customers support its proposed asset health outperformance payments.	The research will test customer views on financial incentives on asset health ODIs as against service measures and resilience measures.