

National Energy Action (NEA) response to 'PR24 and beyond: Reflecting customer preferences in future price reviews'



Action for Warm Homes

About National Energy Action (NEA)

NEA¹ works across England, Wales and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives. NEA is also working with Northumbrian Water Group (NWG) and other water companies to eradicate water poverty by 2030. The programme aims to establish an industry acknowledged definition of water poverty and a more consistent and joined up strategy to deliver positive outcomes for customers struggling with their water bills.

Background to this response

NEA seeks to work in partnership with a range of utilities; GDNs, DNOs, energy suppliers and the water industry. This helps NEA improve support for vulnerable households by joining up services from different partners. There are compelling arguments for the alignment of action to tackle energy and water efficiency at the same time:

- NEA estimate that over 70% of total domestic energy consumption involves heating water for space heating, washing, cooking³;
- There is a strong correlation between households in fuel debt and those in water debt; and
- Both energy and water sectors have focused, but different, schemes for consumer engagement, special assistance or Priority Services Registers, debt and welfare advice, financial assistance, special tariffs and efficiency campaigns or measures that deliver support to households as energy and water consumers.

NEA's work in the energy sector, in particular with Ofgem and energy networks on developing the RIIO-ED1 and GD1 price controls, and more recently the ongoing work with RIIO-2, feeding into forward work programmes and developing vulnerability strategies, has given us significant experience in understanding the areas a regulator can improve and/or focus on to deliver positive impacts for vulnerable customers, as well as those that are less effective. We therefore feel we are well placed to comment on Ofwat's consultation 'PR24 and beyond: Reflecting customer preferences in future price reviews', in order to ensure the best outcomes for the most vulnerable customers served by water companies.

Our response to this consultation

NEA welcome the opportunity to respond to this consultation.

We believe there is significant value in the customer engagement currently required under the business plan process, and that continuation and refinement of this process should be encouraged. Customers and stakeholders provide valuable insights for water companies when developing business plans, and their views should be reflected in company decisions, particularly those made at the local level which differ from the 'norm'.

We recognise this consultation aims to improve the delivery of, and use of data from, customer engagement during the PR24 process, learning from issues and lessons during PR14 and PR19, but we have concerns that this may be coming too early.

We feel Ofwat should consider what they want to achieve from engagement in the round, including engagement with customers, stakeholders, and water company employees, before considering the questions outlined in this proposal. Ofwat should be able to outline the key areas of business plans which they feel they require customer engagement for, as well as the areas which will be better addressed by stakeholders, and how they expect companies to listen to the views of their employees.

Before answering the questions posed in this consultation, we would like to provide specific commentary on the roles of CCGs, and on the proposal to 'step back' and give companies more responsibility for the design of customer engagement programmes.

CCGs

NEA is a member of several Customer Engagement Groups (CEGs) within the energy sector, and we value our membership of these groups which give us a platform to represent fuel poor households. In addition, we are members of a number of advisory groups, some of which are company specific, others which are industry or project led.

We feel the 'expert' views provided at groups of this nature are extremely important in giving the customers and groups we represent a voice, and in helping organisations to best support them and meet their needs.

We question whether CCGs have been placed correctly within water company structures and suggest that, rather than focusing on an assurance role, the groups should be more advisory in nature.

We would like to propose the following format for CCGs moving forward:

- One overarching stakeholder group is formed, potentially with regional sub-groups if appropriate, who can provide insight and expert advice to *all* companies (potentially overseeing the national research)
- Company specific CCGs are retained (or reformed if they are no longer meeting) to act in an advisory role throughout operational delivery, not necessarily business plan specific, challenging as appropriate and offering expertise and guidance.

'Stepping Back'

Although only briefly mentioned at the end of idea two, we were concerned to see the suggestion of 'stepping back' and allowing companies more responsibility to design and implement their customer engagement programmes.

One of the major issues we have seen with customer engagement during PR19 is the disparities of customer views between companies and regions, particularly on common issues. We are concerned that this approach would lead to further divergence, which would just exacerbate the current variances in service delivery and design. We therefore would not support this approach.

Questions for Stakeholders

The remainder of this consultation response aims to answer the questions outlined. We have chosen not to answer all questions posed. Some questions have been answered together where we feel responses are linked. This will be indicated wherever appropriate.

- 1. Do you agree with the goals we have proposed for customer engagement at future price reviews? If not, why not?**
- 2. Are there any other goals which you think we should have for customer engagement at future price reviews?**

We have chosen to answer questions one and two together as we believe our responses are linked.

While we cannot disagree with any of the high-level goals proposed, we question whether they go far enough or if they are too vague to allow for specific commentary. We also question whether they are actually 'goals' (i.e., are they measurable? Is there a clear end?), or are they principles to which good engagement practices can be developed?

Regardless of the label attached to them, we believe customer engagement must be:

- Consistent
- Transparent
- Meaningful
- Representative
- Interactive; and
- Delivered without bias.

We outline our thoughts for each of these principles below.

Consistent

Companies are encouraged to be innovative with the methods used for customer engagement, and so each develop new ways of engaging with their customers, and different methods of presenting the questions to customer groups. This has been seen to generate significant variances in responses between company areas, once such example being the amount of cross-subsidy for affordability support agreed by customers in willingness-to-pay research.

Undertaking this research on a national level could address many of the instances of consistency and should be one of the major reasons for choosing to undertake customer engagement in this manner. Any topics or issues which are not considered to be suitable for national engagement should be justifiable – we would question how many issues are truly local. Is it down to environmental challenges, such as the amount of coastline an area has, in which case company areas with similar environmental make-up could collaborate to engage?

Transparent

Customers should be able to view customer engagement research reports and should be made aware of instances where decisions have been made based on this engagement. This could be more explicitly noted on customer bills or could be published on company websites. Recruitment for customer engagement should be transparent too and allow customers to volunteer for engagement research as they may be more engaged with the process than those recruited by marketing agencies.

Additionally, we have heard anecdotally of issues where CCG members were concerned about the veracity of the research findings presented to them as support for fundamental investment choices and decisions, or of the validity of the choices presented to customers to guide them towards a certain outcome. There should be no question of the honesty and transparency of this process, both in what is presented to customers and how the results are used to drive business decisions. If evidence is ever presented to confirm these reports, the companies should be subject to appropriate penalties.

Meaningful

Not all topics and issues will be relevant to customers. Many of the aspects of the water industry are 'hidden' and customers may not have a detailed enough understanding to provide comments or opinions. Where this is the case, companies should seek 'expert' stakeholder views to make decisions.

Representative

The sample of customers must be representative of the customers served across the industry. This should therefore include representation of every region and every water company, alongside a wide range of demographics including (but not limited to) age, gender, tenure, family make-up, income, health conditions, vulnerabilities, and level of education. It may also add value to engage consumers of water as well as customers of water companies – understanding the views of non-bill payers can give a different perspective.

Interactive

Customers must be engaged through a variety of methods and techniques, recognising that some may not be accessible for customers with specific needs. Engagement should be interactive, and where possible, talking 'at' customers for long periods of time should be discouraged, as customers may not pay attention to the whole topic if there is too much information to digest, missing important elements.

Delivered Without Bias

It is important that the delivery methods used do not try to *push* customers towards a specific outcome. Customers should feel free to provide open opinions and should be able to trust the options presented to them.

Additionally, where broad acceptability is required, this must consider the views of the customers who do *not* accept the proposals. As an example – 80% of customers agree to increasing the cross-subsidy for affordability support, but the 20% who do *not* agree may do so because they are struggling financially. The same applies for other aspects of willingness-to-pay research, and so consideration of how affordability affects the outcome must run throughout all aspects of engagement.

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?

Yes, we feel that consistency in approach is extremely important to ensure that all customers are treated fairly. We do not believe that customers' views about common areas will differ drastically by region and feel the current differences may be skewed by the use of various research methods by each individual company.

Our primary area of focus is the support provided to customers to address affordability and vulnerability concerns, and so we will use that as an illustrative example. It is well known that one of the primary mechanisms to support customers are social tariffs, which currently differ by company. Funding for social tariffs is by cross-subsidy, determined by broad acceptability through willingness-to-pay (WTP) research. This research is conducted by each individual water company engaging with their own customers, and as a result we see significant differences in the level of agree support, ranging from £1.80 to £21 per annual combined bill. As a result, the range of support varies greatly too, with some companies offering discounts as high as 90%, and others as low as 10% of the total bill. These differences in levels of support and eligibility criteria have created a significant postcode lottery for financial support across the water industry in England and Wales, and therefore it can be argued that customers are being treated unfairly due to where they live.

The ongoing CCW affordability review seeks to address this postcode lottery, to make it fairer for all, and we feel it is important to consider the outcomes of that review in the context of customer engagement required for PR24.

In their provisional findings of the water redeterminations (section 7.57), the CMA⁴ stated:

"In our review of customer evidence provided by the Disputing Companies, we have seen examples of PCs or ODIs being proposed that imply differences between customer groups of an order of magnitude that is hard to accept as an accurate reflection of the variation in customer preferences across different regions. This has underlined for us the importance of reviewing company specific customer research alongside other evidence".

We feel this supports our view that more should be done to ensure customer preferences are collected in a consistent manner by engaging centrally with a representative pool of customers. Regional differences could still be identified, and companies could address these as required in their business plans.

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

- **Which aspects of business plans do you think should fall within the scope of this research?**
- **Which organisations do you think should be involved in steering this research?**
- **When should this research be undertaken?**
- **How should this research account for differences between England and Wales?**

We think that any aspect of a business plan which is not unique to the company operating area has the potential to be covered by collaborative nationwide research. Areas with similar geographies, stresses and environmental characteristics could potentially share outcomes of the research – for example, all companies with areas of coastline or severe water stress could access any views relevant to these characteristics.

There will be some areas that are specific to individual companies, such as reservoirs etc. and these will likely require company specific engagement. But for the majority of issues, customers' key priorities (with an assumed basic level of knowledge of the industry) will likely remain very similar, regardless of the company they are served by.

Differences between nations, and regions, could be identified if the research participants were truly representative of water industry customers. Therefore, it is extremely important that there are a wide range of participants from different regions, demographics, and backgrounds. Commonalities and differences between customer groups could then be identified – for example, the research could be split by age profile, region, or by income.

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?

We have chosen to answer questions five and six together as we believe our responses are linked.

We believe guidance will be required for the following:

- The principles to which the collaborative nationwide engagement is undertaken.
- The application of the results from nationwide research into company business plans.
- The principles to which any additional, company-specific, customer research is undertaken for the purposes of business planning.

- The principles to which ongoing customer engagement should take place.
- The role of CCGs.

Any guidance needs to be provided as early as possible in the process – we heard anecdotally from CCG members who felt the guidance provided to them in PR19 was too late in the process, causing confusion and challenges with time and resource management.

Guidance must also be comprehensive to avoid variances, particularly when companies are still to conduct customer research themselves. The RIIO-2 guidance by Ofgem is a good example of this⁵.

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?

We have concerns regarding the use of willingness-to-pay (WTP) research methods. We do not believe that WTP can provide a definitive answer on how much a customer would be willing to pay for a service, particularly when customers have limited understanding of how much that service costs. Instead, we feel it could help companies to understand customer priorities – i.e., customers are more willing to pay for service x than service y.

We also believe that overall customer understanding of what a water bill pays for needs to be improved. Customers are often not aware of how their bill is applied to various services unless they have been involved directly in customer research. Increased transparency of this could lead to higher levels of engagement.

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?

We are anecdotally aware of approaches to WTP which ask customers to allocate spending of a nominal £10 to a list of services. This helps the company understand which services a customer prioritises over another and can be applied to many aspects of the business.

Some companies work to ensure that customer engagement is an ongoing process, and that every interaction is captured, rather than considering it to be a one-off (or price control/ business plan related) activity. We find that the energy companies who have adopted this approach have higher levels of customer satisfaction and are better able to adapt to changing customer needs. This approach includes empowering their staff to be involved with the process, identifying areas for improvement, and suggesting solutions (something which is done particularly well in the financial sector).

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

³ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/604317/Domestic_energy_bills_in_2016_-_the_impact_of_variable_consumption.pdf

⁴ https://assets.publishing.service.gov.uk/media/5f7c467ee90e070dde709cee/Water_provisional_determinations_report_all_-_September_2020_---_web_-_online-2.pdf

⁵ https://www.ofgem.gov.uk/system/files/docs/2019/11/enhanced_engagement_guidance_final.pdf