

Customer Challenge Group Vulnerability sub-group

Meeting #2, Paper#3

PR19 Methodology Consultation – Vulnerability & Affordability



Purpose

The purpose of this presentation is to update the CCG VSG the PR19 methodology consultation approaches to vulnerability

Overview

Ofwat's key themes

- Great customer service
- Resilience
- Affordable bills
- Innovation



More benefits for customers in PR19

PR19 is focusing on four key themes to benefit customers:

The best customer service encourages customers to be active participants in water and wastewater services

Great customer service

- Water customers should receive the same high standards of service they are used to from other sectors.
- Customers' actions can have a direct impact on how water is used and managed. The best customer service encourages customers to be active participants in water and wastewater services.
- PR19 means more dialogue with customers, encouraging innovation and greater understanding of what customers want and need.
- We expect companies to really stretch and challenge themselves to deliver more for their customers.
- We will benchmark water companies' performance against the best in other sectors.

Resilience

- Resilience in PR19 means long-term financial, corporate and operational resilience.
- Water companies need to demonstrate resilience in all these areas.
- We will encourage companies to focus on the long term.
- Company Boards will need to provide assurance on their plans and services as well as compliance with statutory obligations.
- We will challenge companies to demonstrate they understand the risks to their resilience; to cost-effectively address these risks; and have customers' support for their proposals.
- To hold companies to account, we will require companies to have common outcome performance commitments on asset health, resilience and the outcomes that matter to customers.

Affordable bills

- PR19 means companies delivering bills that are affordable for all, now and in the future.
- We expect companies to find better ways to identify and support customers in circumstances that make them vulnerable and those who are struggling to pay.
- We expect companies to provide value for money bills and challenge themselves to push the efficiency frontier to provide scope for price reductions if this is what customers want.
- We want companies to do more to reduce bad debt, reducing the burden of those who won't pay on those who do.

Innovation

- Innovation can mean new technology and better services and benefits for customers and the environment.
- Innovation also can mean working smarter and delivering the services that customers want in new and better ways.
- We will enable and drive innovation in the sector through payment by results – rewarding performance that sets new standards for the sector.
- Where appropriate we will promote markets to encourage innovation through water trading, the bioresources market and greater third party involvement in large projects through direct procurement.

Business plan categorisation – “initial assessment”

- Four categories for business plan assessment – exceptional, fast track, slow track and significant scrutiny
- Ofwat has stated they will not use the ‘exceptional’ category if plans are not sufficiently high-quality, ambitious and innovative
- Financial benefit only related to exceptional plans
- 9 assessment areas:



Exceptional status will be awarded to plans that are high-quality with significant ambition and innovation for customers.

Fast track status will be given to plans that are high-quality and do not require material intervention to protect customer interests, but which are not ambitious and innovative enough to attain exceptional status.

Slow track status will be given to plans where material interventions are required in some areas to protect the interests of customers.

Significant scrutiny status will be given to plans which fall well short of the required quality and where major interventions are required to protect the interest of customers.

Category	Reputational incentives	Procedural incentives	Financial incentives	
		Draft determination	Financial reward	Cost sharing rates
Exceptional	Published performance relative to peers + communication opportunities	Early (March/ April 2019)	Allowance calculated as +0.2% return on regulatory equity (RoRE)	Standard
Fast track	Published performance relative to peers	Early (March/ April 2019)	None	Standard
Slow track	Published performance relative to peers	July 2019	None	Standard
Significant scrutiny	Published performance relative to peers	July 2019	None. Potential cap on outcome delivery incentive (ODI) rewards	Reduced

Customer engagement

Consultation key issues/proposals

Customer engagement

- Ofwat expecting a step change in customer engagement at PR19 with companies using a wider range of techniques to address Ofwat's principles of good customer engagement - this includes customer participation
- Engagement will be central to assessment of company business plans

Non household

- Expectation that wholesalers will engage with business end-customers and retailers

Ofwat's seven principles underlying good customer engagement

Water companies should deliver outcomes that customers and society value at a price they are willing to pay

Customer engagement is essential to achieve the right outcomes at the right time and at the right price

Engagement should not simply take place at price reviews.
Engagement means understanding what customers want and responding to that in plans and ongoing delivery

It is the companies' responsibility to engage with customers and to demonstrate that they have done it well

Customers and their representatives must be able to challenge the companies throughout the process. The engagement process should ensure this challenge happens

Engagement is not a 'one-size-fits-all' process, but should reflect the particular circumstances of each company and its various household and non-household customers

The final decision on price limits is entrusted to Ofwat. We will use a risk-based approach to challenge company plans if this is necessary to protect customers' interests

Affordability and vulnerability

Consultation key issues/proposals

Affordability

- Three aspects - overall affordability; affordability in the long term; and affordability for those struggling or at risk of struggling to pay
- Will be assessed using five principles - customer engagement; customer support; effectiveness; efficiency; and accessibility
- Propose that companies provide data to demonstrate the affordability of their plans
- Clear evidence required that:
 - Companies' financial assistance schemes are accessible for those struggling, or at risk of struggling, to pay their bills.
 - Companies being proactive by identifying those who need help and making it as easy as possible for them to get it
 - Evidence on how companies are communicating to raise awareness of support for customers struggling or at risk of struggling to pay

Vulnerability – 3 qualitative tests

- how well companies have used good-quality available data to understand their customers and identify those in circumstances that make them vulnerable
- how well companies have engaged with other utilities and third party organisations to identify vulnerability and best support those who are in vulnerable circumstances
- how targeted, efficient and effective companies' measures to address vulnerability have been

Affordability and vulnerability

Consultation key issues/proposals

Vulnerability

- Requirement to have bespoke performance commitment in relation to vulnerability
- Common measures to be developed for addressing vulnerability
 - proportion of eligible customers receiving support through vulnerability assistance option(s)
 - the number of customers contacted by the company about eligibility for vulnerability assistance options
 - the percentage of customers receiving vulnerability assistance option(s) who are satisfied with the assistance
- Reports from CCG will provide independent assessment on quality of companies' planned support for vulnerable customers

Outcomes

- Proposed common performance commitments for PR19

1. Future customer experience measure	2. Future developer experience measure	3. Water quality compliance	4. Customer water supply interruptions	5. Leakage	6. Per capita consumption	7. Customer property sewer flooding (internal)
8. Wastewater pollution incidents	9. Risk-based resilience metric (water): drought risk	10. Risk-based resilience metric (wastewater): flooding risk	11. Asset health: mains bursts	12. Asset health: unplanned outage	13. Asset health: sewer collapses	14. Asset health: Wastewater asset failure causing pollution

Area of focus

■ Customer experience
 ■ Day to day performance
 ■ Future performance/resilience

1 to 6 and 9, 11 and 12 apply to WoCs and WaSCs

7, 8 and 10, 13 and 14 apply to WaSCs only

- Proposed new customer experience measure

	Customer service	Customer experience	Net promoter score	Complaints
<i>Ofwat preference is Option 1</i>	quarterly satisfaction survey via online channels, of contacts based on the handling and resolution of a recent matter or complaint	quarterly satisfaction survey via phone, of customers who have not contacted their company	using monthly data submitted by companies of the net proportion of customers who would recommend their water company	volumes based on application of updated guidance (includes complaints made via social media)
Option 1	50% weighting	50% weighting	Not applicable	Reputational incentive
Option 2	40% weighting	40% weighting	Not applicable	20% weighting
Option 3	30% weighting	30% weighting	30% weighting	Reputational incentive

All options: Combined into a single C-MeX score benchmarked against an upper quartile UKCSI all-sector threshold

