Customer engagement and negotiated outcomes in the UK water sector: redefining the regulator’s role?

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Ofgem & Ofwat: customer engagement

- Both regulators concerned about several aspects of price control review process
  - Regulators setting co business plans
  - Minimal role for views of customers
- New incentive: companies engaging with customers to get support for business plans could get fast-track or enhanced status
- Companies keen & competed for this status
- Customer engagement went very well
  - Good challenge to large/incremental projects
A limitation?

• Business plans geared to meet customer preferences – changed co behaviour

• But only 1 in each group of cos were given fast-track or enhanced status
  • Customer engagement necessary but not sufficient
  • Other companies judged not to have negotiated in good faith with customers esp re future costs

• Regulators used process to provoke/assess maximum feasible cost reductions?

• Outcome: for most cos regulators again set significant parameters in price controls
How to evaluate outcome?

- Does this matter?
- Mirrors competition – winner takes all?
- Or will this discourage future engagement?
- Is there a way to get benefits of competing business plans without discouraging customer engagement?
- Consider experience Scottish water sector
- Then return to England & Wales
Customer Forum

- Water Industry Commission Scotland (WICS)
  - concern at adversarial price control process, efficiency not key
  - “lowest overall reasonable cost” – customer judgement?

- WICS, Scottish Water & Consumer Focus Scotland jointly created Customer Forum
  - SW public owned, consistent with new mission

- Remit: research programme to ascertain & represent customer views in review process
  - 9 members: 5 persons “strong customer focussed reputation”, 1 chamber of commerce, 2 retailers, Chair former politician

- Detailed programme of work set out
  - Access to expert advice – former water CEO
Working

• Enthusiastic & effective participation by all
  • Including pushback on company research
  • Deeper understanding customer preferences
  • Input into development of draft business plans

• Then WICS asked Forum to seek to agree Business Plan with Scottish Water, consistent with WICS Guidance Notes
  • About 25 Guidance Notes, on various issues including opex, capex, finance, environmental
  • Indicated area of acceptability to WICS
  • 2 way interaction – WICS responded to Forum & Co
Outcome

- **WICS: tramlines re future SW performance**
  - Adjustment/sharing if unexpected performance
  - Gave assurance to parties
  - And led to focus on monitoring over next period
- Reached agreement on Business Plan
- WICS price determination consistent with it
- Changed Scottish Water approach
  - thinking, projects, explanation, more sensitive to customer needs, more open to lower price settlement
- Better outcome for customers, including
  - New customer service measures
  - Nominal price cap 1.6%~3yrs within CPI-1.75%~6yrs
Next steps in E&W?

• Does experience in Scotland have implications for England and Wales?
• Could regulators feed in earlier information about acceptable costs?
  • Maybe fast-tracking on costs earlier and separate from customer engagement?
• Is it feasible for regulator to interact with 12/18 separate cos & customer groups?
Alternative approach

• Ofwat feeds comparative info to customers
  • And any other appropriate guidance
  • And enables access to technical advice
• Let each customer group decide what are acceptable costs given what others offer
• Each see what others accept or reject
• Ofwat accepts or rejects agreed terms
• Evolving recognition of “going market price”
• Market process in setting price controls?
  • With innovation, variety, learning from experience
  • Would customer groups like menu regulation, totex?
Conclusion

• UK regulators looking for light-handed customer-oriented way to set price controls
• Ofwat & WICS have tried different forms of customer engagement in water sector
• Achievements but still big regulatory input
• Is single buyer regulatory model needed?
• Can customer groups decide what price controls are acceptable? A competitive market process in setting price controls?
• Regulatory role to promote such competition