

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