

National Energy Action (NEA) response to Ofwat's draft determinations PR19



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.

Background to this response

To provide greater access to solutions for households living in fuel poverty, 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.

NEA is proud to be working with Northumbrian Water Group (NWG) on an innovative programme which aims to eradicate water poverty by 2030. The programme aims to establish an industry acknowledged measurement of water poverty, and, understanding the links between water and fuel poverty, explore regional and national partnerships and projects to deliver positive outcomes for customers struggling with their utility bills.

There are compelling arguments for the alignment of action to tackle fuel poverty and water poverty. In NEA's experience of practical delivery, they are often the same householders.

- BEIS estimate that over 70% of domestic energy consumption involves heating water for space heating, washing, cooking;
- There is a strong correlation between households in fuel debt and those in water debt;
- 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 price controls, has given us significant experience in understanding the elements of regulation that work for vulnerable customers, as well as those that are less effective. We therefore believe that we are well placed to comment on the draft determinations in PR19 in order to ensure the best outcomes for the most vulnerable customers who struggle to pay their utility bills.

Our response to this consultation

Affordable Bills

NEA welcomes Ofwat's recognition of affordability issues with water bills, highlighted by the 3 million customers in England and Wales saying they struggle to pay their water bills. Ofwat's interventions to ensure bills are reduced by over 12% before inflation will make a significant difference to customers who are struggling to, or at risk of struggling to, pay their bills. The reductions on bills will reduce the 'water poverty gap'³ for customers, that is the amount bills need to reduce by or incomes need to increase by in order to take customers out of water poverty. These reductions may result in some customers with less severe affordability issues move out of water poverty based on a 3% threshold.

It is clear to see the intentions of the water companies to support more customers with paying their bills. There are some significant increases proposed in regard to customers supported via social tariffs, some proposals as high as 300%, but there are still some companies proposing very small increases to the customers they support (the lowest being 18% and 29% increases). **Ofwat should consider a minimum requirement to increase customers supported through social tariffs, directly in relation to the amount of cross-subsidy agreed.**

The current approach to social tariff eligibility and support levels is determined by individual water companies in line with their agreed level of customer cross-subsidy and potential company contribution. Our view is that **the approach to the funding and delivery of social tariffs should be reviewed to ensure customers are treated fairly and not detrimentally impacted due to where they live.**

The introduction of payment matching schemes is extremely positive, and NEA would encourage more companies to do the same. Customers in vulnerable situations may be very apprehensive of contacting a company they have debt with and may actively avoid interactions. By offering and advertising payment matching schemes, customers could be encouraged to agree and adhere to payment plans with the promise of their debt being written off in a pre-agreed timeframe. **Ofwat should set this as a standard of best practice, encouraging other companies to follow suit.**

Hardship funds aimed at supporting customers affected by one-off situations which make them financially vulnerable are a great way of addressing transient financial vulnerability. Insights from fuel poverty projects managed by NEA (including 'Connecting Homes for Health'⁴ and 'Warm Friends'⁵ amongst others), suggest that hardship or crisis funds can deliver significant benefits for customers with additional needs while spending relatively small amounts of money. Application of small crisis funds has helped to retain participation of 'tricky' households who would otherwise have dropped out projects, but there have been some experiences of hardship funds being difficult to access or apply to. **NEA recommend that companies to consider this approach from a holistic perspective, not solely focusing on**

interventions related to water, and considering all aspects of temporary vulnerability when determining who is eligible for support, ensuring accessing a hardship fund is made as straightforward as possible.

Great Customer Service

Identifying and responding to customers' needs is extremely important and tailoring that response to the diverse range of vulnerable situations customers may find themselves in will require companies to truly embed 'vulnerability' at the core of their customer service culture. Vulnerability is extremely transient in nature, and companies should be able to identify that transience and act upon it appropriately. This means that a 'one-size-fits-all' approach is not suitable to address customers' complex needs, and therefore employees should be empowered to do the right thing to meet their customer's individual requirements. We recognise that identification of transient vulnerabilities is challenging, particularly in an organisation with limited opportunities for customer interaction and a periodic billing relationship. **Companies should seek to find new ways, or improve current methods, to identify and engage customers in vulnerable situations, particularly those of a transient nature.**

NEA value the work currently being undertaken to share PSR data directly between energy and water, and the performance commitments introduced by Ofwat to encourage companies to go further to identify their customers in vulnerable situations. We however do not believe the performance commitment to require each company to have 7% of their customers on their PSR by 2025 is stretching enough. DNO PSR levels are c.23% of their customer bases and are cleansed a minimum of once every two years. This could result in volumes significantly higher than 7% of PSR data being shared with the respective water companies each year before the water company has undertaken any 'recruitment' of its own. **NEA recommends that the performance commitment is amended to acknowledge this, perhaps targeting PSR registrations directly recruited by the water company.**

In terms of PSR data cleansing, NEA agrees with the timeframe proposed, to attempt to cleanse their registers a minimum of once every two years, though acknowledge that other utilities holding the same/similar data have the same requirements. Customers in vulnerable situations are often reluctant to engage with an organisation they don't know well, or, if they are in financial difficulty, one they have a billing relationship with. Multiple contact attempts by multiple organisations can therefore have a negative impact on a customer, causing them to avoid calls and choose not to open letters. NEA believes there could be an opportunity for cross-utility working, to reduce the number of times data is 'cleansed' and therefore reduce the contact attempts made. This could significantly cut the 'cost to serve' across all involved organisations, which could potentially then be passed back to customers through bill reductions. This offers a prime opportunity for regulators to work together, as recently suggested by the Public Accounts Committee⁶. The requirement to achieve a minimum 50% contact success rate seems high, as it is understood, from NEA's interactions, that other utility companies undertaking similar initiatives have been

achieving lower success rates than this, in the region of 35%. This could encourage companies to 'hassle' customers in order reach their target, which could cause significant stress and anxiety to customers already in very vulnerable situations. **NEA recommends that this target be removed, and Ofwat consider other ways this performance could be measured (if even required).**

General Comments

The steps taken to align affordability, vulnerability and great customer service is welcomed by NEA and is a great step forward, complimenting the intent to help customers in vulnerable situations already made clear by the water industry.

Ofwat should encourage water companies to work towards a consistent measurement of water poverty, and to measure the water poverty gap, in order to be aligned by the end of AMP7, allowing comparative reporting during AMP8 and making the end-goal of eradication possible. The water industry therefore needs to be held to account for their performance in supporting customers in vulnerable situations. NEA recognises that Ofwat have not financially incentivised companies for their affordability and vulnerability performance commitments, instead focusing on reputational impacts. In order for this to be effective, Ofwat could consider implementing an assessment process similar to the Ofgem Stakeholder Engagement and Consumer Vulnerability (SECV) incentive process. This process has resulted in a general improvement in network company performance, and the DNO strategic priorities, which are informed by stakeholder engagement, have consistently included efforts to help vulnerable customers⁷.

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 NEA Discussion Paper – 'Water Poverty: A Common Measurement' <https://www.nea.org.uk/water-poverty/>

⁴ Connecting Homes for Health – partnership with Northern Gas Networks - <https://www.nea.org.uk/resources/publications-and-resources/connecting-homes-health-phase-1-review/>

⁵ Warm Friends (to be published) - British Gas Warm Friend's pilot project delivered across the North East of England with a focus on Tyneside. The aim of the project was to educate those living with Dementia, carers, practitioner and service user advocates about energy efficiency, fuel poverty and how to access fuel debt support with the overall aim of making homes warmer, removing them from fuel poverty and/ or avoiding fuel poverty in future.

⁶ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news-parliament-2017/consumer-protection-report-published-17-19/>

⁷ https://www.ofgem.gov.uk/system/files/docs/2018/11/consultation_on_proposed_changes_to_sei_and_secv_guidance.pdf