

# National Energy Action (NEA) response to Ofwat's Forward Programme 2020-21



Action for Warm Homes

## About National Energy Action (NEA)

NEA<sup>1</sup> works across England, Wales and Northern Ireland to ensure that everyone in the UK<sup>2</sup> 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, cooking<sup>3</sup>;
- 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 price controls, 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 hope we are well placed to comment on Ofwat's forward work programme for 2020-21, in order to ensure the best outcomes for the most vulnerable customers served by water companies.

## **NEA's key recommendations for Ofwat**

### Transforming Company Performance

- Where action is required due to underperformance, more value can be obtained through the development of a redress scheme so formal enforcement action and fines have the greatest impact on the customers most in need;
- The development of a vulnerability principle licence condition to provide a clear focus on the identification of, and support for, customers in vulnerable circumstances; and
- The development of a Vulnerability Strategy, aligned to Ofwat's wider strategy, Time to Act Together, but providing more detailed guidance and initiatives for supporting customers in vulnerable situations.

### Addressing Long-Term Challenges

- Vulnerability and affordability should be considered a strategic challenge and therefore should feature as one of the qualifying criteria set-out in the innovation competition framework.

### Better Value for Customers, Society and the Environment

- Social value should always be referred to in terms of outcomes for customers and communities; and
- Ofwat should encourage the collaborative development of a framework to measure value for money to accurately quantify the impact social value has relative to the investment to deliver it.

### Initial Proposals for PR24

- The continuation of 'affordability and vulnerability' as a key theme for the next price review;
- Additional performance metrics, potentially linked to penalty and reward, for supporting customers in vulnerable circumstances should be developed to stretch companies further and ensure their performance is comparable;
- By the start of AMP8, water companies should be aligned to, and reporting against, the same definition of water poverty;
- A performance commitment to reduce extreme indebtedness should be developed;
- Companies should report the number of value-adding conversations they have with customers defaulting on their water bill; and
- More stretching targets for PSR should be developed, with a specific focus on the company's ability to recruit onto, and maintain, their register rather than an over-reliance on industry data sharing.

## **Our response to this consultation**

### Transforming Company Performance

Driving consumer and societal outcomes through company performance should remain a key ambition of Ofwat so that it can continue to demonstrate the legitimacy of a privatised water sector even with the reduced risk of re-nationalisation following the recent general election. Developing a richer understanding of company performance is valuable, providing the commitment to do so leads to consistent and comparable metrics made visible to a wider audience, including customers.

Swift and targeted action in the case of underperformance is also welcomed. The record fines imposed in June 2019 for deliberate mis-reporting and other 'serious failures' demonstrated Ofwat's intention to appropriately use their formal enforcement powers as a way of proving the legitimacy of the sector. The fine of £126m was significant; the direct bill rebate of £61 over five years to every customer had a broad reach, but a relatively small impact on individual customers' financial situations; a model such as the Energy Redress Scheme<sup>4</sup> could have had a greater impact on those most in need. The scheme's core priority is to support consumers, specifically those in vulnerable situations, and those who were negatively impacted by the specific issues that triggered the redress payment.

As an example, at a cost of approximately £75 per person, Benefits Entitlement Checks (BECs) have been shown to deliver around £1,000 in value to the average client. Focusing services and/or rebates to those most-in-need delivers more value in relative terms than a broad-reach rebate and can also support local charities and community organisations through project delivery, therefore providing greater social value.

In addition, NEA's own illustrative analysis suggests that if a one-off investment of less than the individual direct bill rebate (using the June 2019 rebate as a benchmark) was channelled into low-cost water and energy saving measures<sup>5</sup>, energy and water bill savings could be made on average of £78/year for a two-bedroom flat, and £156.50/year for a three-bedroom house. This approach provides a greater and longer-lasting impact for the households in receipt of the measures than a direct bill rebate would.

Within the evaluation of the current regulatory approach we also encourage Ofwat to follow through with their commitment to "consider the case for new high-level licence obligations to provide binding requirements on how companies treat their customers and the most vulnerable in society"<sup>6</sup>. NEA supported the development of the vulnerability principle licence condition and Standards of Conduct for energy suppliers, which Ofgem recently included for Gas Distribution Networks and has suggested will also be rolled out for Distribution Network Operators. The principle's clear focus on identifying vulnerability, as well as ensuring that once identified, those customers receive the most appropriate customer protection, meets the requirement within Ofwat's strategy to "make sure customers' diverse needs, and particularly those in vulnerable circumstances, are properly met"<sup>5</sup>.

Taking inspiration from the achievements made since the first Consumer Vulnerability Strategy was published by Ofgem in 2013, NEA would like to see Ofwat follow suit and develop their own Vulnerability Strategy. We recognise the attempts Ofwat has

made in the past to raise awareness of vulnerability issues and the need for water companies to do more by publishing reports such as Vulnerability Focus in 2016, but to truly embed support for vulnerable customers across the industry, there should be a central focus provided by the regulator. A Vulnerability Strategy could provide both Ofwat and water companies with a framework to guide all decisions by considering how they might directly, or indirectly, impact customers in vulnerable circumstances, and how customers' needs can be safeguarded where required. NEA see this strategy as being separate to the wider strategy, 'Time to Act Together', but feel that it could be aligned to the three strategic goals with more vulnerability-specific guidance and initiatives outlined.

**In summary, to transform company performance, NEA recommends:**

- 1. Where action is required due to underperformance, more value can be obtained through the development of a redress scheme so formal enforcement action and fines have the greatest impact on the customers most in need;**
- 2. The development of a vulnerability principle licence condition to provide a clear focus on the identification of, and support for, customers in vulnerable circumstances; and**
- 3. Development of a Vulnerability Strategy, aligned to the wider strategy, Time to Act Together, but providing more detailed guidance and initiatives for supporting customers in vulnerable situations.**

#### Addressing Long-Term Challenges

We believe that driving innovation to address some of the strategic challenges faced by the water industry is absolutely the right thing to do. NEA believes that vulnerability and affordability should be considered strategic challenges - 22% of the UK population is in poverty, that's 14.3 million people whose options are restricted by their circumstances<sup>7</sup>. If the goal is for water companies to have a true social purpose, then innovation projects focused on addressing vulnerability and affordability challenges can help to deliver that. The upcoming work to finalise the framework for the innovation competition allows the possibility for vulnerability and affordability to be considered as qualifying criteria for applications to the innovation competition.

**In summary, to address long-term challenges, NEA recommends:**

- 1. Vulnerability and affordability should be considered a strategic challenge and therefore should feature as one of the qualifying criteria set-out in the innovation competition framework.**

#### Better Value for Customers, Society and the Environment

Delivering public and/or social value can add significant value to communities, and NEA welcome seeing the water companies in England and Wales working to deliver

increased social value alongside their Business as Usual activities. Social value can deliver social, environmental and economic benefits to customers and communities, and the unique relationships the regional monopoly-based water companies have with their customers puts them in a great position to deliver more of what matters to the communities they serve.

However, the forward work plan, and the Social Value Summit held in November 2019, both seem to focus more on how social value can attract investors rather than the value it provides to the customers served. While NEA understands the need to attract investment in order to deliver enhanced services for customers, it is concerning that that companies may only prioritise social value for these reasons. In order to deliver true social value, companies primarily need to be considering the outcomes for customers.

To know social value is embedded, and to understand its value, similarly to 'transforming company performance', this work should be consistently measured and comparable between water companies. There are various methods to measure 'Value for Money' ranging in complexity, including, but not limited to: Net Present Value; Cost Benefit Analysis; and Social Return on Investment. There have been various attempts by water companies to assess some of their social projects, usually using a consultancy to develop the methodology. NEA believe it would be a better use of customer money if companies were to collaborate on developing an agreed framework for measurement, which could then be reported on to provide consistent and comparable performance metrics.

**In summary, to provide better value for customers, society and the environment, NEA recommends:**

- 1. Social value should always be referred to in terms of outcomes for customers and communities; and**
- 2. Ofwat should encourage the collaborative development of a framework to measure value for money to accurately quantify the impact social value has relative to the investment to deliver it.**

#### Initial Proposals for PR24

NEA welcome the early consideration of key areas and building blocks for PR24. We valued affordability and vulnerability being a key theme during PR19, as it demonstrates Ofwat's commitment to supporting customers in vulnerable situations and encourages the water companies to go further than what is simply expected. We feel passionately that this should continue to be a key theme in the PR24 process but urge Ofwat to develop additional consistent and comparable performance metrics, some of which could be linked to financial penalties and rewards. In particular, NEA stress the importance of all water companies working towards the same measurement of water poverty<sup>8</sup>, with stretching targets and performance metrics to ensure they do all they can to work towards eradication by 2030.

In addressing vulnerability and affordability as a strategic challenge, thought should also be given to the impact of debt on low-income households. In their 2018 UK

Poverty Report<sup>9</sup>, The Joseph Rowntree Foundation highlighted water bills as the most common type of debt for low-income households, with 7% of adults in the lowest income quintile presenting with water debt according to the Family Resources Survey. In a report for Thames Water<sup>10</sup>, Frontier Economics highlighted how “households are more likely to deprioritise paying water bills in favour of other bills where the consequences of non-payment are more immediate”. Water bills could therefore be an early identifier of households who are at risk of, or have fallen into, financial difficulty, even if only in the short-term. Given the potential importance of water debt in the wider debt and poverty landscape, NEA would like to see a specific performance commitment around the reduction of debt in situations of extreme indebtedness (i.e. where the level of debt exceeds the average annual bill). Companies could achieve this in a number of ways, including increased debt advice, partnerships with debt support agencies, and more innovative payment plans. We would also like to see a requirement for companies to report the number of conversations they have with customers who default and still do not pay following a reminder. These conversations could provide water efficiency advice, debt advice, or could be general welfare/vulnerability checks – the specifics could be determined by Ofwat in their guidance notes for dealing with household customers in debt, but the conversation should be focused on adding value to the customer and aim to reduce financial difficulty at the earliest possibility.

Additionally, NEA urge Ofwat to consider pushing companies further on their performance commitments for the Priority Services Register (PSR). The current performance commitment requires companies to achieve a PSR reach of 7% by 2025. With industry data sharing going live in April 2020, the ability of water companies to reach this target increases significantly as they will be accessing the energy PSR which has an average PSR reach of 24%<sup>11</sup>. A stronger metric would be for companies to report on PSR recruitment as a direct result of their own activities (i.e. negating any records added as a result of data sharing). This would result in a more accurate measure of the company’s attempts to improve their records and would encourage more direct engagement with customers.

**In summary, when considering initial proposals for PR24, NEA recommends:**

- 1. The continuation of ‘affordability and vulnerability’ as a key theme for the next price review;**
- 2. Additional performance metrics, potentially linked to penalty and reward, for supporting customers in vulnerable circumstances should be developed to stretch companies further and ensure their performance is comparable;**
- 3. By the start of AMP8, water companies should be aligned to, and reporting against, the same definition of water poverty;**
- 4. A performance commitment to reduce extreme indebtedness should be developed;**
- 5. Companies should report the number of value-adding conversations they have with customers defaulting on their water bill; and**

## **6. More stretching targets for PSR should be developed, with a specific focus on the company's ability to recruit onto, and maintain, their register rather than an over-reliance on industry data sharing.**

---

<sup>1</sup> For more information visit: [www.nea.org.uk](http://www.nea.org.uk).

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

<sup>3</sup> [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](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)

<sup>4</sup> <https://energyredress.org.uk/about-us>

<sup>5</sup> Calculations based on the installation and material costs of 4m of pipe lagging, one hot water insulation jacket, one hippo water saver, and one water saving showerhead. Installation and material costs total £56.15.

<sup>6</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2019/10/Time-to-act-together-Ofwats-strategy-1.pdf>

<sup>7</sup> <https://www.jrf.org.uk/file/51905/download?token=UNkn7YC8&filetype=findings>

<sup>8</sup> NEA recommend the industry work towards a common measurement of water poverty, in line with the next price review, whilst focusing on practical delivery projects and other innovations to alleviate water poverty under their current definitions in the interim <https://www.nea.org.uk/wp-content/uploads/2019/09/Water-poverty-a-common-measurement-PRINT-VERSION.pdf>

<sup>9</sup> <https://www.jrf.org.uk/file/51931/download?token=z6wguxAp&filetype=full-report>

<sup>10</sup> <https://www.thameswater.co.uk/-/media/Site-Content/Thames-Water/Corporate/AboutUs/our-business/our-regulators/Frontier-report-on-modelling-the-propensity-to-default-on-payment-of-water-bills.pdf>

<sup>11</sup> Calculated from the figures provided in DNO 2018/19 SECV submissions available here: <https://www.ofgem.gov.uk/publications-and-updates/decision-stakeholder-engagement-and-consumer-vulnerability-incentive-2018-19-electricity-distribution>