



Action for Warm Homes

Forward Programme Consultation Response

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NEA response to open consultation on Ofwat's Forward Programme 2021-22

National Energy Action (NEA) recognises that many low-income households experience affordability issues with their essential household bills, rarely struggling with one bill in isolation, and as a result is delivering a programme of work which seeks to support 'People Living in Water Poverty and Fuel Poverty'. Our programme aims to eradicate water poverty by 2030, by raising awareness of the issues households face, and through aligning policy and practical action to support low-income households across sectors and across all regions of the UK.

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 programme for 2021-22, in order to ensure the best outcomes for the most vulnerable customers served by water companies.

The need to support customers in vulnerable situations and those who experience affordability issues has been highlighted more than ever before during the Covid-19 pandemic. Thousands of households are experiencing affordability issues for the first time, with thousands more falling deeper into debt and poverty. The pandemic has impacted people financially, but it has also had a substantial impact on both physical and mental health. The long-term effects are uncertain, and we know there is a long road to recovery. It is important that all organisations and industries consider the role they have to play in the recovery, to try and mitigate the impacts and build back better.

It is for this reason that we are very pleased to see 'value for money for customers, keeping bills affordable' recognised as one of the customer needs which underpins your strategic goals, however, we were disappointed to see very little detail on this topic in the 2021-22 milestones. Therefore, we would encourage you to do more in this area, specifically regarding the following topics:

CCW's independent review of affordability support in water

This independent review of water affordability support, commissioned by UK and Welsh Government, is the biggest opportunity to influence the landscape of affordability support since the Walker Review in 2009-10, and is coming at a time when more people than ever are struggling with their essential household bills. The

the national energy action charity

President: Baroness McIntosh. Vice-Presidents: David Green OBE; Baroness Hilton of Eggardon; David Porter OBE; Lord Shipley of Gosforth OBE. Chair: Claire Durkin. Chief Executive: Adam Scorer.

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review will make recommendations to support households in a more consistent manner in the short-, medium- and long-term; implementation of these recommendations will require substantial buy-in from all participants in the industry, and a clear strategic direction from Ofwat.

We were disappointed to see that the outcome of this review was not referenced as a milestone in the April – June 2021 quarter, and would have expected Ofwat to recognise their role in the implementation of the recommendations.

In our response to the call for evidence for this review¹, we called for greater consistency of approach across all companies, including aligning eligibility criteria and support levels. We referenced the need for a common measure of water poverty, alongside a water poverty strategy, and called for the industry to be more innovative with support for customers in vulnerable situations and, more generally, with their charging mechanisms. If action is taken in any of these areas, Ofwat will have a substantial role to play to encourage these changes, ensure that obligations are met and highlight best practice within the industry.

The industry response to Covid-19 in the context of vulnerability and consumer debt

Covid-19 and the associated financial and social impacts have resulted in significantly increasing levels of financial difficulty, utility debt and overall vulnerability. As a result, companies have had to adapt quickly to respond to changing customer needs. The initial response by the water companies was collaborative, consistent, and extremely well received, and could be highlighted as best practice across sectors. But the current policy framework has meant that companies have had to adapt, with some introducing interim support, to be able to respond appropriately.

We believe it is the role of Ofwat to undertake a ‘lessons learned’ review of the overall industry response to Covid-19, understanding what issues were faced by companies in regard to resilience and vulnerability support, and make contingency arrangements for future events.

Specifically, with Citizens Advice estimating that 3 million households have fallen behind with their water bills as a result of the crisis, we think it important for Ofwat to be considering what action(s) should be taken to support customers further with their debt, and to ensure that the debt management process is fair. We believe this involves a thorough review of the debt guidance, ensuring they are aligned with ability to pay principles and are consistent across all companies.

Transparency of company performance

The transparency of company performance is an area of interest for both customers and stakeholders. While customers may not be able to switch supplier as they can in energy, it is useful for them to have a clear understanding of how their company is performing, and to what extent they are focused on the issues most important to the communities they serve.

Stakeholders and policy makers need to understand how companies are performing in order to offer insight and recommendations for improvements in their engagement with companies. Information in this area is very limited, and any metrics published are not always comparable. It can be challenging to measure social value, but we feel it is important to explore the options available to do so. This could include the publication of an annual report, looking at vulnerability across the industry. We would recommend this includes figures on household debt levels, as these are not regularly reported on (the most recent data being from the 2016 Vulnerability Focus report).

To know social value is embedded, and to understand its value, performance should be consistently measured and comparable between water companies. There are various methods to measure ‘Value for

¹ <https://www.nea.org.uk/wp-content/uploads/2020/12/NEA-Response-CCW-CfE-Water-Affordability-Review-Dec-2020-FINAL-Redacted.pdf>

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.

Ofgem require energy suppliers to provide information about their performance against their social obligations under Supply Licence Condition 32. This includes payment methods, levels of debt and debt repayments, disconnection rates, prepayment meters, and non-financial support for customers in vulnerable situations². While not all of this information will be directly replicable by the water industry, the model could be. Ofgem publish this data annually to try and increase transparency of the industry as much as possible, and we would encourage Ofwat to do the same.

The introduction of a vulnerability strategy and licence condition(s)

As highlighted in our response to Ofwat's 2020-21 forward plan, there have been many 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 their vulnerability strategy, Ofgem outlined their intent to introduce a licence obligation on how gas and electricity networks treat consumers in vulnerable situations as part of the RIIO-2 price control process. This principles-based condition will be similar to those found under Condition 0. (Treating Customers Fairly) and SLC 0 (Standards of Conduct) of the Electricity and Gas Supply Licence Conditions. We feel this is a significant step forward in supporting customers in vulnerable situations and believe the water industry licences should do the same.

in addition to this, we note the recent inclusion of ability to pay principles in the energy supply licence, which was introduced in response to concerns that not all suppliers were applying the principles consistently when setting up repayment plans. The changes to licence conditions were introduced on 15th December 2020 and should be considered best practice as suppliers will be accountable under licence for the consistent application of these principles. We would encourage Ofwat to do the same.

We would be happy to discuss any of the points raised within this letter with you further,

Yours sincerely,



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² <https://www.ofgem.gov.uk/gas/retail-market/consumer-vulnerability-strategy/social-obligations-reporting>