



Action for Warm Homes

PR24 and Beyond Consultation Response

Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

PR24@ofwat.gov.uk

National Office

Level 6 (Elswick)
West One
Forth Banks
Newcastle upon Tyne
NE1 3PA
Tel: 0191 261 5677
E-mail: info@nea.org.uk
<http://www.nea.org.uk>
Twitter: @nea_ukcharity

22nd July 2021

National Energy Action (NEA) response to open consultation ‘PR24 and beyond: Creating tomorrow, together’.

NEA works across England, Wales, and Northern Ireland to ensure that everyone in the UK can afford to live in a warm, dry home. NEA recognises that many low-income households that experience affordability issues rarely struggling with one bill in isolation. As a result, our programme ‘People Living in Water Poverty and Fuel Poverty’ aims to eradicate water poverty by 2030 and align policy and practical action to support low-income households to afford both energy and water across all countries and regions of the UK.

Our work in the energy sector has supported millions of low income and vulnerable consumers. We have played a key role with Ofgem and energy networks to develop recent price controls which have enhanced support for vulnerable customers at the same time as facilitating the move to net zero. NEA has also fed into forward work programmes for Ofgem and developed new or updated vulnerability strategies which have improved outcomes for the most vulnerable customers. We have also influenced the shape of national support programmes across the UK for many years. NEA has also recently helped galvanise key developments in the water sector. In May 2020, we called for a full review of social tariffs, their funding, eligibility criteria, and support levelsⁱ. We subsequently worked closely with the Consumer Council for Water’s (CCW) Independent Review of Affordabilityⁱⁱ which aimed to provide greater support and more consistent outcomes to households facing financial difficulty. NEA believes the outcomes of the review provide the first opportunity in over a decade to change the landscape of water affordability support in England and Wales, identifying and retaining good practice and making improvements to make support fairer for all.

This combined experience 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 consultation ‘PR24 and Beyond: Creating tomorrow, together’, in order to ensure the best outcomes for the most vulnerable customers served by water companies.

Affordability must be a key theme in PR24

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. Even before the pandemic, we estimate that over 5 million customers are in water poverty and struggling to afford the water they need for their daily lives, with 2 million of these in severe water povertyⁱⁱⁱ. Thousands more households are now experiencing affordability issues for the first time, 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

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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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.

We are pleased to see this challenge recognised in the consultation document, alongside the many references to delivering services that are 'value for money'. However, customer affordability spans across many aspects of the price control, and if it is not to be a key theme in its own right, it must feature in each of the key themes outlined in Ofwat's vision for PR24. Below we highlight how affordability and vulnerability cut across each theme, whether positively or negatively. We hope this will result in a stronger, more pronounced workstream(s) on affordability and complement the recommendations within the affordability review to provide greater support and more consistent outcomes to households facing financial difficulty.

Increase focus on the long-term

We recognise the need to focus on long-term strategic challenges. There are many challenges facing the water industry, including major environmental challenges, which cannot be solved during a single AMP, and so it is essential to have a long-term focus. However, NEA stresses the medium- and longer-term financial impacts of the Covid-19 pandemic will continue to be prominent throughout the next PR24 period. There must be appropriate focus on how these challenges can be addressed effectively, with appropriate changes to long-term goals as required, without risk of penalty to the water company or increased costs or detriment to customers. Price controls need to be sustainable yet have sufficient flexibility to adapt to unforeseen events.

Specifically for customers at risk of vulnerability or affordability challenges, a long-term focus on affordability must provide struggling customers with some economic certainty and security. Fluctuating bills can make it extremely challenging for customers to budget, especially when bills rise but incomes do not. Providing a flatter bill profile over a longer time period may therefore be more beneficial for low-income and 'just about managing' families. In addition, it is necessary to provide common requirements to water companies, ensuring that each company addresses similar major strategic challenges. The extent of the challenge on their individual company areas may differ, and therefore the actions taken in their respective business plans will reflect this, but the high-level challenges addressed should be the same for each company and should reflect the objectives and ambition set by Government and the Regulator.

Deliver greater environmental and social value

There are substantial environmental challenges facing the industry and the country as a whole, including the increasing risk of water scarcity and the need to reduce carbon emissions. The water industry's role is significant in combatting these challenges, and we believe work in these areas can address other, non-environmental, challenges at the same time.

Households with affordability issues may not be the highest consumers of water, they may actually be extremely low-consumers due to attempts at self-rationing. However, targeting efficiency measures at these households can provide substantial benefits, potentially increasing the likelihood of maintaining healthy payment arrangements due to making bills more affordable. If this is done in conjunction with energy efficiency advice and measures, then the benefits increase even further – including much higher carbon reductions. We therefore recommend that PR24 has a greater focus on targeted water efficiency measures, and on cross-utility working to maximise both societal and environmental benefits.

Reflect a clearer understanding of customers and communities

The CCW affordability review highlighted the need for water companies to improve their understanding of their customers, communities, and the challenges they face. Recommendations included developing a framework to help companies understand their local and regional demographics, alongside a requirement to publish regular updates on water poverty, vulnerability, and affordability.

The recent Listen Care Share campaign is an excellent example of listening to customers and their representatives to gain a deeper understanding of the issues they face. Research such as this, plus resulting recommendations for service improvements, should be considered invaluable to companies, but it's the subsequent actions that are the most important and can really make a difference to customers and communities. Actions can include simple

adjustments in communication, increasing engagement with customers from their individual water use to the issues that matter to them most. Or it could include much larger interventions, such as the recommended review of social tariffs; the recommendation to step away from willingness-to-pay research to determine the level of cross-subsidy for social tariffs may have an impact on a company's engagement plans. Companies must be required to fill this research gap with alternative approaches to ensure they are aware of relevant needs and concerns. The Listen Care Share campaign report is an excellent starting point for Ofwat to develop a vulnerability strategy, and this is something we would encourage to help give companies more direction on the activity they should be taking in this area.

We therefore feel this theme needs to be more focused on *action*; this should include increased and/or improved customer research which lead to demonstrable improvements in customer service. The current momentum seen from the recent affordability review and the recent focus from the Listen Care Share campaign must be maintained, with outputs and outcomes of these initiatives reported on periodically. Opportunities to share best practice, and to maximise the options for data sharing must be identified and implemented. In addition, customer awareness of the role of the water company in their community, and of the support available should it be needed, needs to be improved through increased collaboration and greater transparency.

Drive improvements through efficiency and innovation

We were pleased to see affordability and vulnerability reflected in the strategic challenges set out in the Ofwat Innovation Competitions, but disappointed to find there were limited applications addressing vulnerabilities in the first round of the competition. We feel it may be worthwhile to highlight affordability and vulnerability as a separate strategic challenge, perhaps expanding the list to six, to encourage more focus in this area. Additionally, we think it appropriate for Ofwat to learn from best practice and replicate the assessment framework Ofgem are using for innovation projects funded through Network Innovation Allowance (NIA) in the energy industry. NIA funding will be reserved for projects related to the energy system transition and addressing consumer vulnerability. Additionally, there will be a new requirement for NIA projects to undertake an impact assessment of their effects upon vulnerable consumers. This recognises that most, if not all, innovation projects can have an impact on customers in vulnerable situations, either positive or negative, and that these impacts need to be identified and, if causing detriment, appropriate mitigations are put in place. This is something which was also recommended in the CCW affordability review.

Ofgem have also introduced a requirement on DNOs to have a vulnerability strategy that sets out the activities they will undertake to deliver positive outcomes for consumers in vulnerable situations. This must focus on households with a vulnerability to a loss of supply; being in, or at risk of, fuel poverty; and those at risk of being left behind by the energy system transition towards Net-Zero. A strategy is a requirement for stage one of the business planning incentive. Alongside this, an ODI for vulnerability will reward DNOs for the delivery of their strategy up to a maximum of 0.5% of base revenue. DNOs could be penalised by up to 0.5% of base revenue for failing to meet the vulnerability baseline standards (see below). This is being introduced alongside an overarching principles-based licence obligation on DNOs to treat their customers fairly, including those in vulnerable situations, throughout their operations. This LO will be comparable to Condition 0 of the Gas and Electricity Supply Licences and the LO introduced in RIIO-GD2 (SSC D21).

It is vital that these valuable approaches are explored by Ofwat and in general that an essential service such as water is delivered efficiently, offering excellent value for money while keeping bills low. We feel that performance assessments, perhaps by cost-benefit analysis, are an important element to ensuring customer money is well spent. This would also meet our call for water companies to be more transparent and visible and could offer opportunities for those external to the industry to identify further opportunities for innovation.

NEA heard anecdotal evidence from water companies following the final determinations in PR19, which suggested reductions in their allowances impacted their ability to deliver on long-term resilience. As highlighted by Sir James Bevan, Chief Executive of the Environment Agency, water scarcity is becoming an increasing issue for the United Kingdom, and we risk not having enough water to supply our needs within the next 25 years. In 2012, the European Commission stated that "setting the price of water is a key tool used to support water management decisions; water that is under-priced may lead to its unsustainable use. In the EU, member states... are required,

among other measures, to recover the cost of water services as a means of promoting sustainable and efficient water use". We therefore believe that striking an appropriate balance between customer bill profiles and efficiency is extremely important. If a smaller reduction in bills in the short-term reduces the risk of higher bill spikes in the future due to water resource management, then we believe the long-term impact on both the affordability and accessibility of water could be improved.

In summary:

- Customer affordability must be a clear feature in PR24 and future price reviews, either as theme in its own right, or by being explicitly addressed under each key theme. This will provide the opportunity to strengthen existing support services while addressing emerging challenges through innovation, all whilst keeping bill levels as low as possible.
- Appropriate focus on the short- and medium- term challenges must be retained alongside any increased focus on the long-term strategic challenges. Companies must have the flexibility and ability to respond to emerging, more time-sensitive, issues without fear of penalty, and without detriment to their customers.
- Increased and clearer understanding of the needs of customers and communities must be supported by appropriate action, with research leading to demonstrable improvements in customer service. The current momentum surrounding customer affordability must be maintained, and opportunities to level up must be maximised.
- There needs to be an increased focus on identifying innovative solutions to addressing customer affordability and vulnerability, with a requirement to assess all innovation projects for the effect on customers in vulnerable circumstances. Cost-benefit analyses should be undertaken to demonstrate the value in spending customers' money on innovations.
- An appropriate balance must be struck between keeping bills low and providing adequate allowances to support long-term resilience; if a smaller reduction in bills in the short-term reduces the risk of higher bill spikes in the future due to water resource management, then we believe the long-term impact on both the affordability and accessibility of water could be improved.

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

Yours sincerely,



Jess Cook (Project Development Manager (Water Poverty))

jess.cook@nea.org.uk

ⁱ <https://www.nea.org.uk/wp-content/uploads/2020/10/Water-Poverty-The-Consistency-of-Social-Tariffs.pdf>

ⁱⁱ <https://www.ccwater.org.uk/wp-content/uploads/2021/05/Independent-review-of-water-affordability.pdf>

ⁱⁱⁱ <https://www.nea.org.uk/wp-content/uploads/2020/10/Water-poverty-a-common-measurement-PRINT-VERSION.pdf>