



Action for Warm Homes

National Energy Action (NEA) response to Defra's 'consultation on a new strategic policy statement for Ofwat'

September 2021

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. 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.

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Background to this response

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.

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 levels³. We subsequently worked closely with the Consumer Council for Water's (CCW) Independent Review of Affordability⁴ 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 knowledge and understanding of 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 Defra's proposed strategic policy statement for Ofwat.

Our response to this consultation

The remainder of this consultation response answers the questions outlined, in order.

Q1. Has the government identified the most relevant strategic priorities for Ofwat? If not, please provide details of the priorities that should be included.

The four long-term strategic priorities outlined are reflective of key challenges highlighted elsewhere in the sector. For this reason, NEA agrees that they are relevant, and has not identified any additional priorities to be included in this statement.

We outline our thoughts on each of the four priorities, in order, below:

1. Protecting and enhancing the environment

Recognising the challenges facing the sector regarding water scarcity due to climate change and population growth, it is only right that this is listed as a specific priority. Water is an essential service, and so we must protect this vital resource.

Scarcity pricing has been used in other sectors as a mechanism for demand management. Although not explicitly raised in the proposed strategic policy statement, we feel it appropriate to now stress that we do not feel this is appropriate for essential services. Scarcity pricing for water could lead to self-rationing of water in the home, which could have significant health and wellbeing consequences for those in low-income and/or vulnerable households. NEA believes there are many alternative market-based tools which would be more appropriate for this sector.

2. A resilient water sector

As an essential service, one which is recognised as a human right, increased resilience to water supply is a necessity. Loss of supply events between April 2019 and March 2020 accounted for an average of 12 minutes lost per property per year, with 47,406 mains pipe bursts⁵. While this is substantially lower than historical data, and many interruptions are resolved quickly, this still poses challenges for some customers, particularly those with medical requirements or living in vulnerable circumstances. Water-supply assets must be adequately maintained and/or replaced to avoid long-term interruptions to supply.

Reflecting the challenge of water scarcity, as outlined in priority one, reducing demand for water alongside increasing supply, is extremely important to reduce water stress, but there are other benefits too. Reducing domestic water use can reduce bills for metered customers and can also reduce energy bills through reducing hot water consumption, both of which will reduce carbon, therefore supporting priority one. Ofwat should be encouraged to work alongside Ofgem to ensure this message is clear, and wherever possible, energy and water efficiency advice and measures are delivered collectively.

Addressing leaks on customers' pipes could have a substantial impact in managing water demand, reducing leakages, and safeguarding customers to 'shock' bills. At a minimum, companies should be encouraged to pay for repairs on a means tested basis, if not for everyone,

especially considering many people do not realise the pipes are their responsibility, nor have any way of checking them for leaks since they are not visible.

We note there is no reference to smart water metering under this priority, and we feel this needs to be considered, as increasing visibility of water use in 'real time' (instead of on a six-monthly basis) will make it significantly easier for customers to both change their behaviours and to identify potential spikes in water consumption due to leakages.

We welcome the expectation on Ofwat to use its regulatory powers to balance the costs associated with delivering a resilient water sector to ensure customers receive bills that are fair and represent good value for money. We would also expect any balancing to take equity into account, to ensure low-income households do not shoulder a disproportionate share of the burden.

3. Serving and protecting customers

We agree with the priority of providing a better and fairer water service for all; however, the requirement to drive water companies to meet the needs of vulnerable customers feels like an add-on, rather than being core to delivering this priority. Customers in vulnerable circumstances, whether financial or non-financial, may not be in a position to utilise the same services as other customers, or to access them using the same methods. It is important to note that any one of us can find ourselves in vulnerable circumstances at any time, something which the recent pandemic has shown very clearly. Therefore, it is crucial to ensure that the varying needs of all customers are understood and addressed in improving water services.

We therefore propose that the wording of this priority is amended to: **“Ofwat should push water companies to provide a better and fairer water service for all, improving customer services and complaints handling, by thoroughly understanding and meeting the needs of all customers, including those in circumstances which make them vulnerable or ‘transiently vulnerable’”**.

We welcome the call for Ofwat to “strengthen its focus on protecting vulnerable customers” and believe this is best achieved through the introduction of a vulnerability strategy and associated licence conditions. There have been many achievements made since the first Consumer Vulnerability Strategy was published by Ofgem in 2013, and NEA would like to see Ofwat follow suit.

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 their 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 RII0-2 price control process. This principles-based condition will be similar to those found under Supplier Licence Condition 0. (Treating Customers Fairly) and the associated standards of conduct within 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 as we believe this would help companies to proactively manage debt, and to effectively target support offerings.

The recent CCW Affordability Review provided the first opportunity in over a decade to make a substantial change to the landscape of affordability support across the sector. Some of the overall principles outlined in the review, such as improved engagement, better use of data, and management of customer debt, have been outlined in this priorities document, but we feel this could go further. There is an opportunity for Defra and Ofwat to work together to develop a water poverty strategy, incorporating many of the recommendations of the affordability review. This will provide a strong foundation to support delivery of the outcomes, with benefits for all customers. We have shared our additional thoughts on the expectations of Ofwat in relation to the affordability review in our response to Q2.

4. Driving markets to deliver for customers

As a regional monopoly sector, there is no natural competition in the water industry. This makes it even more important to have a fair and transparent sector that works for the benefit of all customers. Competition has been introduced for the non-household market, but there may be other markets-based tools which could offer benefits to the domestic market. It is vital, however, that the introduction of any tools which encourage behaviour through signals rather than explicit directives, do so in a way which does not cause detriment to any customer groups, and does not create a postcode lottery for customer service.

As customers do not have a choice for their water supplier, it is vital that all new appointments and variations (NAVs) must provide the same level of service as the incumbent water company they replace. This must include access to affordability support, complaint handling standards, and adherence to debt guidelines and ability to pay principles.

Q2. Does the strategic policy statement effectively set out government’s expectations of Ofwat in supporting delivery of our priorities? If not, please identify where these expectations could be made clearer.

The points made in response to this question have been grouped by priority for clarity.

Protecting and enhancing the environment

NEA believes the cost of water should only rise as a method of promoting sustainable water use if all other options have been exhausted and feel this should be an explicit expectation of Ofwat. If there is no alternative option available to Ofwat, then an additional expectation should apply which would ensure appropriate safeguards would be put in place to support low-income and/or vulnerable households with the rising costs of water.

A resilient water sector

There are opportunities to maximise engagement with customers through collaboration across sectors, and we feel that Defra should set an expectation of Ofwat to work with regulators of other utilities (at a minimum, this must include Ofgem) to raise awareness of the need for, and the benefits of, joined up water and energy efficiency, and increased data sharing (which partly addresses the expectation to expand data sharing initiatives under ‘serving and protecting customers’).

Additionally, we feel there should be an expectation placed on Ofwat to drive progress with smart water metering, which could have substantial benefits for customer affordability and leakage reduction through their ability to produce ‘real-time’ information. With an appropriate delivery strategy, in time this expectation should ensure that only smart water meters are installed, and work to replace ‘dumb’ meters commences.

Serving and protecting customers

To support the commentary in paragraph 44 of the proposed priorities, we encourage Defra to include an additional expectation of Ofwat to strengthen its focus on protecting vulnerable customers by introducing a vulnerability strategy and associated licence conditions. As detailed in our response to Q1, the introduction of a similar strategy in energy saw a marked increase in the range and standards of services provided to customers in vulnerable circumstances, making services more accessible and fairer for all.

We believe the expectation to “challenge companies to treat all customers fairly” can be further strengthened by expecting Ofwat to introduce a licence condition requiring companies to treat customers fairly. This condition would be principles-based and would replicate best practice as identified in the energy industry.

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). We believe it is important to increase transparency in the industry, and therefore we feel it would be appropriate to include an expectation of Ofwat to publish vulnerability performance data, household debt levels, and water poverty metrics on an annual basis.

As previously mentioned, the CCW Affordability Review provided the first opportunity in over a decade to make a substantial change to the landscape of affordability support across the sector. We welcome the expectation to “consider the conclusions of the [CCW] Affordability Review...”, however, we feel a change of wording could strengthen this further. We would propose the following wording replace this expectation: We expect Ofwat to **“work with CCW, and other industry stakeholders, to implement the outcomes of the CCW Affordability Review, to improve awareness of, access to and fairness of support measures in the sector”**.

Finally, it would be remiss of us to ignore the current external challenges faced by low-income and/or vulnerable households. In a relatively short period of time, households are being hit with the removal of the Universal Credit uplift, the end of the furlough scheme and possible redundancies, the increase to national insurance, the rise in the energy price cap, and the recent gas price crisis *resulting in many energy suppliers ceasing trading*, all hitting in Autumn/Winter - a time well recognised as challenging for many. Although not directly related to the water sector, the indirect impacts of the current financial climate could have a catastrophic effect on those most in need. We therefore would encourage Defra to place an expectation on Ofwat to be aware of these, and any future, external pressures, and to encourage water companies to demonstrate empathy and understanding, offering additional support wherever possible.

Driving markets to deliver for customers

We do not wish to make any amendments or suggest any additional expectations under this priority.

Q3. Do you consider that this statement to Ofwat is clear and easy to understand? If not, please identify any areas that could be clarified.

Yes, we find this clear and straightforward to understand, and would not require any areas of clarification. We propose only one amendment, regarding the priority to serve and protect customers, as detailed in our response to Q1.

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

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

5 <https://discoverwater.co.uk/loss-of-supply>