



Action for Warm Homes

Forward Programme Consultation Response

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NEA response to open consultation on Ofwat's Forward Programme 2022-23

National Energy Action (NEA) has worked for the last 40 years across the energy sector to support low-income and/or 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 levels. We subsequently worked closely with the Consumer Council for Water's (CCW) Independent Review of Affordability¹ 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, and believe the momentum must be maintained if we are to make a stepped change in the numbers of households experiencing water poverty.

This combined experience has given us significant knowledge 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 'forward programme 2022-23', in order to ensure the best outcomes for the most vulnerable customers served by water companies.

We are very pleased to find that this year's forward programme has a clear focus on 'value for money for customers, and affordability', with progress being made to introduce a customer focused licence condition, and clear support for implementing the recommendations made in the affordability review. We have structured our response to this consultation around the following five themes:

- Affordability pressures
- The outcomes of the affordability review

¹ <https://www.ccwater.org.uk/wp-content/uploads/2021/05/Independent-review-of-water-affordability.pdf>

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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- Addressing consumer vulnerability
- Customer engagement and insights; and,
- Developing PR24.

Affordability pressures

The current cost-of-living crisis is one which cannot be ignored. When this forward programme comes into action in April 2022, it will come at a time of increased pressures across multiple household bills, with very limited, and poorly targeted, support from Government. We therefore welcome the commitment to maintaining a flexible approach to meeting the changing needs of customers and feel this will be required in the coming months.

When energy bills rise in April, the cost-of-living crisis will be further exacerbated and we will likely see an increased level of defaults on water bills, as customers find ways to manage their increased financial commitments. While this is not an ideal situation, both for companies and for customers, the consequences of non-payment for water are much lesser than in other sectors, and so this is the most likely bill for customers to default on in the early stages of financial difficulty (possibly after informal and formal borrowing options have both been exhausted). **We think it is vital for Ofwat to publicly recognise this, and to lead mitigating actions for customers through increased cross-sector data sharing.** By informing other creditors, such as energy suppliers, of this early indicator of financial difficulty, other organisations will be able to respond more quickly, ensuring interventions are provided to customers at the earliest opportunity, hopefully avoiding these households spiralling into problem debt. This could potentially use the Priority Services Register (PSR) as the primary mechanism of notification. **We would therefore urge Ofwat to discuss this approach with other regulators via the UK Regulator's Network (UKRN), the Government's Consumer Forum, and/or any other forums deemed appropriate.**

We also believe it would be appropriate to increase the transparency of data in this area, particularly reporting household debt levels on a regular basis to inform a cross-sector response to emerging issues. At the very least, a benchmark of current household water debt levels would be useful, with a commitment to reporting on this data at least annually (the most recent data on household debt was published in the 2016 Vulnerability Focus report).

It should also be noted that we fully welcome the revision of the debt guidelines for water, expected in early 2022. The proposed guidelines were extensive, and we will be interested to see how Ofwat has chosen to proceed with the review. **We still feel it extremely important to support any revisions to the guidance with a licence condition requiring companies to assess a customer's ability to pay, with a supporting framework for assessment.** This is something we'd be happy to work with Ofwat, and companies, to produce, particularly if this can be done on a cross-sector basis as energy suppliers are also accountable under licence to adhere to ability to pay principles.

The outcomes of the affordability review

We are pleased to see a commitment to working with CCW to implement the recommendations of the 2021 affordability review, including the work to develop a new single social tariff. While it is excellent to see progress being made towards a single social tariff, we are concerned by the timeline of an April 2025 implementation given the current circumstances; we therefore feel it is important to consider what interim measures may be taken to address the ongoing cost-of-living crisis, and recently published a policy briefing paper² outlining eight recommendations for the industry, and Government, to consider, which included agreeing minimum standards for eligibility criteria which could be better publicised now.

The affordability review outlined ten key recommendations, with 40 supporting actions, across many aspects of affordability and vulnerability support. Ofwat is right to acknowledge that short-term action is required to

² <https://www.nea.org.uk/wp-content/uploads/2022/02/April-2022-price-rises-in-water-04-02-22.pdf>

increase awareness of, and access to, affordability support across the industry. As part of our research into the coping tactics³ used by customers struggling with their water bills, we asked customers about their awareness of affordability support in water. Only 10% of customers responded that they knew either ‘a great deal’, or ‘a fair amount’ about the support offered by water companies. **Our briefing paper (mentioned above) make recommendations which could start to improve the awareness of support across the industry, and we ask Ofwat to encourage companies to consider these actions.**

Addressing consumer vulnerability

We welcome Ofwat’s commitment to introducing a new licence condition to support customers in vulnerable circumstances, though further detail of what this may or may not include would be welcomed. In our response to the 2021-22 forward programme, we proposed Ofwat consider replicating the principles-based condition being introduced through the RIIO-2 process in energy. This has since been introduced for the Gas Distribution Networks (GDNs) with supporting guidance⁴ outlining the standards of conduct expected of the companies. We encourage Ofwat to consider a similar approach in water.

We have long advocated for the introduction of a vulnerability strategy in the water industry, similar to the Consumer Vulnerability Strategy introduced by Ofgem in 2013. 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. This would complement the introduction of the aforementioned licence condition. **We recommend Ofwat develops a vulnerability strategy during 2022-23, with companies being required to develop their own, aligned, strategies during 2023-24.**

We welcome the continued commitment to achieving cross-sector PSR data sharing between energy and water. This is something which has been discussed for many years, and which has hit a number of barriers. We believe this would be extremely beneficial to customers and would like to see further detail on the actions Ofwat will take to encourage action in this area. As part of the development of this, we would also **encourage the inclusion of a financial vulnerability flag**, to aide cross-sector data-sharing of customers falling into financial difficulty, as outlined in the ‘affordability pressures’ section of this response.

Customer engagement and insights

We were very pleased to engage with Ofwat during the Listen, Care, Share campaign, to help senior leaders understand the lived experiences of our clients, and the challenges our operational staff have encountered during the pandemic response. We have since moved into another crisis, the cost-of-living crisis, and so feel it would be beneficial for Ofwat to repeat this engagement to understand how circumstances may be changing. While there is no further detail provided in this consultation, we hope the commitment to “continue to develop our Customer Insight programme” intends on doing just this. **We feel this company-to-company engagement could also be supported by a series of roundtable/ workshop-style events with multiple consumer bodies coming together to allow Ofwat to fully understand the challenges customers are facing.** This holistic view and understanding will be crucial for the development of future policies, and to inform PR24 development (as discussed below).

It is also important to have a solid understanding of issues across multiple sectors, and so the commitment to collaborate via UKRN and the Government’s Consumer Forum will hopefully achieve this. We strongly support cross-sector working in common areas and would be happy to work with Ofwat to achieve this, primarily between water and energy.

While not coming directly from customers, the insights which can be gained from the pilot phases of the innovation fund will be extremely useful to understanding which policy areas need more targeted

³ <https://www.nea.org.uk/news/water-poverty-struggling-to-cope-or-just-coping-with-the-struggle/>

⁴ https://www.ofgem.gov.uk/sites/default/files/docs/2021/05/riio-gd2_fair_treatment_guidance_0.pdf

interventions. We understand there are multiple challenges facing the sector, however, we were disappointed to see so few innovation submissions focused on improving outcomes for customers in vulnerable circumstances. **We would therefore like to see action to address this, either by a clear call for submissions addressing the challenges customers in vulnerable circumstances face, or by the requirement for all innovation projects to assess the impact of the innovation on households in vulnerable circumstances, as is now the case in energy⁵.**

Developing PR24

We are very pleased to see that companies will be required to robustly address affordability in their plans for PR24 and will respond to the methodology consultation later this year. We also welcome the intention to undertake collaborative research with CCW, to understand customers views to inform PR24 on a more consistent basis. We feel consistency is crucial when addressing vulnerability and affordability and welcome any steps to reducing the postcode lottery currently experienced across the sector.

In our response to the recent consultation, ‘PR24 and beyond: performance commitments for future price reviews’⁶, we outlined our concerns regarding the lack of performance commitments addressing vulnerability and/or affordability in the initial proposals. **We urge Ofwat to consider how introducing performance commitments in these areas would enhance the support provided to customers and reinforce the commitment to helping those most in need.**

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

Yours sincerely,



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⁵ <https://www.ofgem.gov.uk/publications/riio-2-nia-governance-document-0>

⁶ <https://www.nea.org.uk/publications/neas-response-to-ofwats-consultation-pr24-and-beyond-performance-commitments-for-future-price-reviews/>