



Action for Warm Homes

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NEA response to Ofwat’s discussion paper – “PR24 and beyond: performance commitments for future price reviews”

National Energy Action (NEA) has worked for the last 40 years across the energy sector to support 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, 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 ‘PR24 and Beyond: performance commitments for future price reviews’, in order to ensure the best outcomes for the most vulnerable customers served by water companies.

General Comments

Overall, we welcome the general intention to reduce the number of bespoke Performance Commitments (PCs), and instead place common commitments on companies from PR24 onwards. We strongly advocate consistency across the sector wherever possible, while still accepting that there will be some exceptions which may require bespoke PCs. We agree that a focus on outcomes over outputs is important as this reduces the risk of companies ‘chasing the numbers’, but this must be supported with an appropriate method of measurement for each commitment to ensure results are comparable.

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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Once the high-level performance commitments are agreed, we would request an additional consultation focused on the referenced 'Price Control Deliverables (PCDs)' be issued to allow stakeholders the opportunity to address any potential conflicts and/or gaps.

Given the recent activity across the industry following the CCW Affordability Review, we are disappointed to find very little proposed to monitor company performance across vulnerability and affordability. We understand Ofwat intend to use other regulatory tools to monitor performance in certain areas, and we welcome their intention to introduce a principles-based licence condition for vulnerability, though we feel this could be strengthened by the introduction of a vulnerability strategy, both at regulatory and company level. However, we also believe there are opportunities to introduce new, or enhance existing, performance commitments in this area, which would reinforce Ofwat's commitment to delivering enhanced services for struggling households and send a clear message to all sectors that this is taken seriously in the water industry. We will explore our thoughts in this area throughout the remainder of this response.

Vulnerability

While we understand that this approach focuses more on outcomes than on outputs, we feel it is crucial to still include a performance commitment for vulnerability, to continue to hold companies accountable for the work they do in this area. Removing the PCs relating to the Priority Services Register (PSR) means there will no longer be any commitments directly relating to customers in vulnerable circumstances, and this is not an outcome we can support.

We propose two alternative PCs in this area:

- 1) Companies to report on PSR recruitment as a direct result of their own activities (i.e., negating any records added as a result of cross-sector data sharing). We believe this would result in a more accurate measurement of the company's attempts to improve their records and would encourage more direct engagement with customers both during, and outside of, incidents.
- 2) Companies to report on an additional measure of experience, which specifically surveys customers on the PSR. We propose this would be conducted in a similar manner to C-Mex, surveying both PSR customers who have recently contacted their company, and a broader selection of PSR customers.

In addition, we wish to reinforce our calls for the creation of a financial vulnerability 'flag' or 'needs code' on the PSR, which we have previously called for in both energyⁱⁱⁱ and in water^{iv}. While this may not be a performance commitment in its own right, a performance commitment of the number of customers identified as 'financially vulnerable' could follow the creation of this needs code, and this, alongside potential cross-industry data sharing to support customers holistically, would emphasise Ofwat's commitment to supporting those struggling the most. We would be happy to work with Ofwat and Ofgem to develop this on a cross-sector basis.

Affordability

As we indicated in our response to 'PR24 and beyond: Creating tomorrow, together'^v, we believe 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 poverty^{vi}. 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 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 therefore disappointed to find that Ofwat has not proposed any PCs relating specifically to affordability.

In our response to Ofwat's consultation on their forward work programme for 2020-21^{vii}, we proposed a PC focused on the reduction of debt in situations of severe indebtedness (i.e., where the level of debt exceeds the annual bill). There are many ways in which companies could address debt levels, therefore allowing flexibility in delivery, and this would remain an outcomes-based measure, therefore aligning to the future direction Ofwat wish to travel. This could be supported by a PCD which requires companies to report the number of conversations they have with customers who default and still do not pay following a reminder – this PCD would strongly encourage value adding conversations, with the aim of reducing financial difficulty at the earliest possibility.

Finally, NEA strongly encourages Ofwat to develop a PC which directly encourages companies to reduce the levels of water poverty in their operating areas. This PC could be supported by a range of PCDs, including, but not limited to, the numbers of income maximisation assessments undertaken, or the value of income generated/realised for those customers, the levels of customers accessing affordability support in their region, the levels of debt written off for customers unable to pay, and the success rate of payment plans for customers in debt. These activities would deliver on some of the outcomes of the CCW Independent Review of Affordability Support in Water, whilst working towards the industry goal of eradicating water poverty by 2030.

The broad categories of outcomes

The three categories of outcomes proposed in this discussion paper directly link to all but one of the four strategic priorities suggested by Defra in their draft strategic policy statement; 'driving markets to deliver for customers' is the only priority not covered in the proposed categories. Our response to Defra's consultation on their draft strategic policy statement^{viii} agreed with each of these four priorities, and it therefore may be appropriate for Ofwat to reconsider if any PCs could be aligned to this priority as a fourth category of outcomes.

In summary:

- We support the move towards common performance commitments, with bespoke commitments only in exceptional circumstances, however, we believe this must be supported with an appropriate method of measurement for each commitment to ensure results are comparable.
- We request an additional consultation be issued, focused on 'Price Control Deliverables', to allow stakeholders the opportunity to address any potential conflicts and/or gaps.
- We feel it is vital for Ofwat to reinforce their commitment to action for affordability and vulnerability, by introducing a vulnerability strategy at the regulatory level, with a requirement for companies to do the same.
- We propose two additional PCs which directly relate to customers in vulnerable circumstances:
 - o Companies to report on PSR recruitment as a direct result of their own activities; and
 - o Companies to report on an additional measure of experience, which specifically surveys customers on the PSR.
- We urge Ofwat to support the development of a financial vulnerability 'flag' on the PSR, which would encourage early identification and support of those in financial difficulty. Following the creation of this, it may be appropriate to introduce a complementary performance commitment focused on the numbers of customers identified as financially vulnerable.
- We propose a PC focused on the reduction of debt in situations of severe indebtedness, supported by a PCD requiring companies to report the number of conversations they have with customers who default and still do not pay following a reminder.
- We propose a PC which directly encourages companies to reduce the levels of water poverty in their operating areas, supported by a range of PCDs which directly correlate to the recommendations made in the CCW affordability review.

- We would encourage Ofwat to consider if it would be appropriate to align PCs to the fourth priority outlined in Defra's draft strategic policy statement as an additional category of outcomes.

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

Yours sincerely,



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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/2021/02/NEA-Response-to-Ofgem-Forward-Work-Programme-21_23_Website-1.pdf

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

^v <https://www.nea.org.uk/publications/neas-response-to-ofwats-consultation-pr24-and-beyond-creating-tomorrow-together/>

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

^{vii} <https://www.nea.org.uk/publications/nea-response-to-ofwat-forward-work-programme-2020-21/>

^{viii} <https://www.nea.org.uk/publications/nea-response-to-defras-consultation-on-a-new-strategic-policy-statement-for-ofwat/>