

**Ofwat's emerging strategy: Driving transformational innovation in the sector
CONSULTATION RESPONSE FROM AGILITY ECO SERVICES LIMITED, 20 September 2019**

Thank you for the opportunity to respond to this consultation. We welcome Ofwat's proposal of up to £200m of customer money to help stimulate innovation in the sector.

We warmly welcome that Ofwat is considering innovation more widely than the development of new technologies, to address the big challenges facing the water industry. We strongly agree that innovation is also about having the right systems, processes, business models and people to support innovation activities.

We believe that there is great scope for innovation in relation to the key PR19 theme of 'Affordability and Vulnerability'. We are pleased to see that Ofwat is encouraging companies through the price review to innovate, to improve their assistance to customers who struggle to pay and who are in circumstances that make them vulnerable. We have focused our response on this theme.

Whilst the water companies have made some plausible commitments to support vulnerable customers in their PR19 business plan, such as increasing take up of the Priority Services Register (PSR), increasing the number of people on a social tariff and support for some people who are in debt, we don't think this goes far enough.

We believe Ofwat's proposal to enable funding, is a huge opportunity to help drive innovation across the sector, to provide holistic support through partnership working; to help vulnerable households reduce water consumption, overcome barriers and deliver holistic support and life changing outcomes.

Inability to pay for energy and water and experiencing vulnerability are common threads for many households. Providing basic assistance to these households on both energy and water services makes economic sense, as well as serving customers better.

We therefore believe so much more can be done to provide a joined up approach across the utilities, in public policy, across regulators and active partnerships, to drive innovative approaches and improved efficiency across the services.

We believe cross-utility collaboration, will help drive learnings from the energy sector in capita consumption reduction, addressing affordability and providing wider support to those who need it.

Here are some specific points in our response that we would like to highlight:

- To ensure vulnerability has the required level of focus for innovation development we believe a proportion of this innovation funding should be specifically ringfenced to the 'Affordability and Vulnerability' PR19 theme **(see our response to Q:2)**.
- We would like to see the innovation process drive more collaboration between Water Companies, Distribution Network Operators (DNO's) Gas Distribution Networks (GDN's) and Energy Retailers. We see them working together with specialist partners such as AgilityEco

to help co-ordinate a regional approach, with local authorities and local partners, to ensure no opportunity is missed to support vulnerable people in their region

(See our response Q:1 ii).

- The water industry should be encouraged to learn from the energy sector of tackling dual objectives, reducing consumption per capita, through retrofit and behavioural change programmes whilst providing holistic support to deliver life-changing outcomes for customers who need that extra help. **(See our response Q1. iii).**
- We believe there could be huge cost efficiencies through applying joint funding to create and deliver vulnerability programmes;
 - funding from this water innovation proposal
 - funding from the Fuel Poor Network Extension Scheme (FPNES), Network Innovation Allowances (NIA) and the future ‘use-it-or-lose-it-allowance
 - energy supply obligations, Warm Home Discount (WHD) and Energy Company Obligation (ECO).

(see our response to Q:6)

- We don’t believe there should be rewards for implementation of approved bids, through an end-of-period roll out reward incentive. The proposed framework for financial and reputation incentives to deliver innovative projects should be sufficient and we believe the whole £200m should be put to new innovation. For successful projects it would make common business sense to scale up and embed them as ‘business as usual’ without an additional award. **(see our response to Q:5)**

An introduction to AgilityEco

Each year at AgilityEco we help tens of thousands of fuel poor and vulnerable households to reduce their energy bills and stay warm and well. We work with a huge network of partners in the public, private and third sectors and together we have achieved much success.

We work with energy suppliers, network companies, water companies, local authorities and housing providers to plan, fund and manage services to **support households that need a helping hand with affordability and vulnerability issues.**

Our work is funded primarily by energy suppliers’ regulated obligations, namely the Energy Company Obligation (ECO) and Warm Home Discount (WHD). Collectively these obligations provide c.£1bn of support per annum to fuel poor and vulnerable households.

We use these funding streams, plus others available from network companies, local authorities and water companies etc, to deliver free services to these households. By offering an extensive range of services we can offer a truly holistic package of services which we believe is quite unique in our sector.

These services include:

- Home visits through our Local Energy Assistance Programme (LEAP), providing free, energy saving (and where funding is available water efficiency also) money advice to help people keep warm and reduce their energy bills without costing them any money.

- Arranging the installation of first time central heating systems to support households with expensive and inefficient heating systems such as storage heaters and open fires.
- Repairs and replacements of old, inefficiency appliances such as inefficient fridges, fridge freezers, washing machines and cookers with modern efficient alternatives.
- A helpline hub for referrals of vulnerable households and those struggling to pay to channel the customer to the most appropriate service to help in their circumstance.

We have developed a unique approach that brings together: high quality vulnerable customer support, delivered at scale; funding and delivery of energy efficiency measures; and local partnerships with local authorities at the centre. (See our range of services below).

<p>Home visits - energy efficiency, benefits and income advice</p>		<p>LEAP (Local Energy Advice Partnership) is a free, energy-saving and money advice service that is helping people keep warm and reduce their energy bills without costing them any money.</p>
<p>First-time central heating systems</p>		<p>Warmer Homes and the Greater Manchester Warm Homes Fund support households with expensive and inefficient heating systems (such as storage heaters or open fires) to obtain free connections to the gas grid and first-time central heating.</p>
<p>Funding for insulation and heating measures</p>		<p>ECO supports fuel poor and vulnerable homes with funding for insulation and heating measures. These are provided through our outreach services and local supply chain partnerships. MyEcoHome is an online portal which checks if householders are eligible for funding for energy efficiency measures (such as insulation and heating) under the government's ECO scheme.</p>
<p>Replacement of old, inefficient appliances</p>		<p>HEART (Home Energy Appliance Replacement) supports households that need a helping hand through the replacement of old, inefficient fridges, fridge/freezers, washing machines and cookers with modern, efficient alternatives.</p>
<p>Emergency heating system repair and replacement</p>		<p>ECHO (Emergency Central Heating Offer) provides emergency assistance to qualifying households to repair or replace broken or condemned boilers. The Winter Voucher Scheme offers help to homeowners who cannot afford to repair or replace a gas appliance, such as a boiler or gas cooker, following a gas leak in their home.</p>

Our approach of treating vulnerability support with energy efficiency improvement delivers huge impact. We have quantified this impact for 2018, which is summarised in the following diagram:



Through the success of our community outreach programmes, we've demonstrated how practical help and support with energy efficiency measures can have a life-changing effect on people struggling with profound poverty and those in vulnerable situations. The chart below gives an example of the kind of life-changing outcomes that can be achieved by bringing the various strands of help and support together for vulnerable households:



Our goal is to deliver better outcomes for those in fuel poor and vulnerable situations, supporting their health, safety and wellbeing.

Q:1 What are the main barriers to innovation in the sector and why?

There are many barriers to innovation, such as a restrictive culture of an organisation and lack of innovation hubs and systems to help harness innovation throughout the organisation. United Utilities have for example shown in their PR19 business plan how this can be achieved.

Some of the main barriers from AgilityEco's experience include:

(i) Teams across organisations working in silos

Departments within the water companies tend to work in silos, when more collaboration across the organisation could enable far greater outcomes.

For example, there are huge benefits to be gained by departments responsible for water efficiency and per capita reduction, to work closely with the teams which support customers with affordability and vulnerability issues, to help achieve the objectives of both departments.

Vulnerable customers and customers who are unable to afford their water bills could be provided with a far more support. Many of these households will be using water inefficiently due to old showers, leaky toilets and pipework which they cannot afford to have repaired or replaced. A targeted approach to engage with these customers may be for example, a home visit to fit water efficiency devices, whilst giving face to face advice on how to save water. This engagement could include assessing to see if the customer would benefit from a water meter, offering debt and financial support, and signing up to a social tariff if eligible and the PSR and onward referrals to reputable agencies to address safety issues and other vulnerabilities.

This approach would enable serving customers in a more holistic way, providing far greater impact and achieving more through combining budgets for solutions and efficiencies across the organisations.

AgilityEco is working with a number of water companies to help break down the internal silos and bring this collaboration and joined up approach together, to deliver water efficiency and support services to those who need it most.

(ii) Lack of Cross sector co-ordination and vision

It is encouraging to see some sector wide and regional cross working of utilities to focus on common objectives, to identify and support vulnerable households. However, they have mainly focused on signing customers up to PSR and small scale projects. We believe so much more could be done by utilities working together and working with their local authorities and local outreach organisations, to support customers who would greatly benefit from joined up help and shared funding from all the utilities.

We would like to see more Water Companies, Gas Distribution Networks (GDNs), Distribution Network Operators (DNOs) and Energy Retailers work together with specialist partners such as AgilityEco to help co-ordinate a regional approach. This would enable joined up communications,

service channels and cost efficiencies. For the customer it would mean clear messaging, support from trusted intermediaries and an integrated package of support.

(iii) Lack of learning from other sectors and regulation

There is lots of learning and evidence available from the energy sector on how to really drive down capita consumption and support vulnerable customers, which does not appear to be being fully made use of yet by the water sector. Energy suppliers have a firm obligation to demonstrate that they have funded energy savings measures with a high percentage targeted at those households in need of extra help.

Schemes such as the Energy Company Obligation and the Warm Homes Discount Industry Initiatives have provided the framework and the funding of £1bn a year and innovative solutions have developed as a result. Examples include the suite of programmes developed and delivered by AgilityEco (see page 3).

If there was this type of firm obligation to fund installation of water saving measures with a minimum percentage to be targeted at households with affordability and vulnerability issues, then it would encourage water companies to enter into innovative partnerships with local authorities, housing providers and local supply chain co-ordinators to identify those who need the help and deliver the support. This would also stimulate a “least cost” approach to delivering the water savings.

There is 20 years of evidence from the energy industry and design experience to create a similar approach.

AgilityEco has significant first-hand experience of the benefits of engaging vulnerable customers in the energy sector and the benefits that energy suppliers and network companies can bring through their licence obligations and price control. We can bring about best practice and a coherent approach to maximise outcomes for energy and water poor and vulnerable households and to drive a joined-up approach in tackling these issues.

(iv) Ability to Act, Implement and Scale up

We see many research projects and small scale innovative pilots, but often due to lack of resources and co-ordination, pilots don't reach scale or become embedded across organisations, or become shared as best practice across the sector. We believe Ofwat's proposed innovation funding will enable projects to be fully evaluated and if the longer term benefits are there, the framework and funding will allow them to be scaled up and become mainstream.

(v) Burdensome Procurement processes

Procurement processes can be over prescriptive, clunky and very lengthy and time consuming. They often don't encourage suppliers to bring their expertise and innovative ideas to the table.

AgilityEco would like to see flexible procurement processes that embed social value and encourage the bringing together of supplier experience and capability for co-creation of innovative

programmes, products and services. This would include academia, medical practitioners, local authorities, charities, outreach intermediaries etc.

Q:2 Do you think that the financial support cited in section three is required to stimulate innovation in the sector? If so, what do you believe is the appropriate amount of funding and why?

As previously stated, we believe company obligated funding mechanisms are required to deliver long term benefits to customers, supporting the most vulnerable and to meet the key challenges the sector faces, such as water scarcity.

However, this is an invaluable opportunity to use a substantial proportion of this funding for the 'Affordability and Vulnerability' theme, to help shape the future approach for supporting water poor and vulnerable customers. We would encourage Ofwat to consider ringfencing a fair amount to help achieve the focus and collaboration needed.

Q:3 Do you agree that our proposed draft principles for additional funding will effectively safeguard the interests of customers?

We agree with all of Ofwat's proposed principles. We particularly welcome the acknowledgement that innovation does not just mean technology innovation, it could mean doing things differently.

We particularly support the principal that water companies must work together, with others in their supply chain and companies in other sectors to innovate.

We welcome the opportunity for companies such as AgilityEco who have developed their business based on innovation, to bring their expertise and core capabilities to co-develop innovative projects with water companies.

There are many opportunities to deliver innovation in services and products to support vulnerable households. Some of AgilityEco's innovative services have already been explained early in the document. As an example of product innovation, AgilityEco is working in partnership to deliver free smart thermostats as part of its LEAP programme, helping vulnerable households to better control their heating and reduce their bills whilst staying warm and well. There is a huge potential for innovation in the water sector to help address affordability and vulnerability.

We support Ofwat's encouragement for innovation proposals to address the big challenges facing the sector and taking into account the strategic priorities of the UK and Welsh Governments.

For example, our interests in supporting vulnerable customers through this Innovation process directly supports the Government's aim of enabling 5 extra years of healthy ageing and independent living. The Government has laid out in the Digital Economy Act how water companies should go further to identify and protect vulnerable customers who are struggling to afford their charges and to provide tailored support to meet vulnerable customer needs beyond affordable bills.

To prevent customers money being wasted, we strongly support that there should be some claw-back mechanism in place where projects are not taken forward, because they are not achieving the intended outcomes.

Q:4 What are your views on the collectively funded innovation competition model which we describe in section three? What other key considerations not highlighted should we take into account in designing /implementing the competition?

In principle we support the collectively funded innovation and we are pleased to see the proposal would have both financial and reputational incentives for water companies to work together with their supply chain and partnerships to propose innovative projects.

We believe the innovation competition would encourage all water companies to participate, even those that would normally be followers rather than innovators. The criteria for funding and reward would need to be carefully laid out to ensure this model does not disadvantage smaller water companies, whose initiatives may otherwise be assessed as less favourable if they have less scale and reach than some of the larger company bids.

Whilst we agree there needs to be a set-up phase and a robust framework, as Ofwat have laid out, with a single independent entity to assess projects put forward, time and costs to do this could absorb a high percentage of the overall funding available. We are confident there will be shared learnings from previous Ofwat's governance frameworks and Ofgem's, in particularly the framework for Ofgem's use-it-or-lose-it allowance for Gas Networks, which could help ensure the set up phase is cost effective.

Q:5 What are your views on the end-of-period innovation roll-out reward we described in section three? What other key considerations not highlighted (eg. Whether it should be collectively funded or individually funded) should we take into account in designing / implementing reward?

If the innovation competition has a robust process underpinning it and it works effectively, then we don't see the need to have an end-of-period innovation roll-out reward. Companies should be sufficiently rewarded through the process and we believe it would be more acceptable to customers if all the funding goes directly to support new innovation.

If pilots are sufficiently successful, then it should be in the best interest of the company and its customers to embed into 'business as usual' without any further award. What's more, rewarding companies for successful rollout does not seem to fit with the aim of transformational long term change. It would seem time would need to be spent reviewing why approved projects do not become rolled out at scale, rather than further rewarding the ones that do.

Furthermore, from the information available in the consultation, it would appear that companies that have projects approved and commence early on in the 2020 -2025 period would have more outcomes to report and so would have a stronger chance of receiving end of period innovation roll-out reward, than for projects that commenced later on in the period, which would seem unfair.

Q6: What other potential alternative mechanisms for funding / rewarding innovation not discussed do you think we should be considering?

Ofwat could consider including an allocation of the funding to sector wide innovation projects, where learnings and outcomes would benefit all water companies and the whole industry. These would be the type of projects where innovators in the supply chain could really bring their knowledge and expertise to bear. This would compliment the idea of the sector-wide joint innovation strategy which is more likely to be successful if there is a key objective to drive cross sector initiatives with some funding allocated to its activities. This could be likened to the cross industry element of the use-it-or-lose-it allowance as part of Ofgem’s framework for the RIIO-2 for Gas Networks.

More widely, Regulators could agree an innovation funding mechanism across sectors to have the biggest impact on problematic issues that affect all sectors and the general public and could have the greatest social value return on investment. A typical project to have this effect would be on supporting hard to reach vulnerable customers which has limited and reduced funding. A cross utility funded approach could create broader more flexible but tailored packages of support;

- Water efficiency advice and support to reduce bills
- Registration and accessibility for priority services
- Energy efficiency to make homes warmer
- Replacement of old efficient appliances, both heating and white goods saving money and carbon
- Emergency interventions for households with no heating, allowing NHS savings for instance through making earlier return home from hospital possible.
- Home safety and hazard checks
- Advice on finances, maximising benefits and assisting access to social tariffs

This joint funding would be made up from ECO, WHD, FPNES, (NIA), local authority funding, and this Water Innovation funding.

Programmes to deliver the above through services such as AgilityEco’s would achieve far better life changing outcomes for the millions of low income and vulnerable households that need help. This approach would have significant savings on the NHS and provide wide socio-economic and environmental benefits.

Overall cost savings would be realised through;

- a joined up approach of identifying those households most in need of help, through utility customer information, overlaid by local authorities and local agency knowledge.
- joined up messaging and campaigns
- integrated services and joined up engagement with the customer by trusted intermediaries, for example a home advisor providing assistance to households on energy and water.

The above makes economic sense as well as better served customers.

Q:7 Do you think the potential industry activities in section four could help drive innovation? Are there other activities not identified which you think the industry should be considering?

We support Ofwat's further considerations in section four of the consultation.

We believe a sector wide innovation strategy with a centre of excellence would be of great value.

This could help to have a more streamlined approach to innovation by having a process to agree which water companies would lead on which innovation themes, dependent upon their own regional issues and capabilities and in turn share progress and learnings across the sector.

Through a sector wide innovation strategy, it may also become apparent that a cross sector innovation project would be of best interest and engagement with the value chain and innovators would be key.

We also support Ofwat's idea of a centre of excellence. At AgilityEco, we have listened to our customers and gained great insight into how our holistic support brings about life changing sustainable impacts. We would welcome the opportunity to bring expertise and market knowledge into the centre.

We also agree that there is significant scope for the water sector to make better use of information available. For example, there is a huge amount of insight and information between statutory agencies and delivery partners and we would support a more open and accessible approach to help water companies better understand their vulnerable customers and enable outreach activity, delivered at scale.

Better use of data, greater engagement with vulnerable customers and more active partnership working could assist water companies in targeting more help to their own vulnerable customers, in emergency circumstances when there is a disruption to water supply and more widely in their customer journeys.

Q:8 Do you think the proposals in section five will help drive innovation? Are there other activities not identified which you think Ofwat should be considering?

We support Ofwat's concept to set up an informal advice service for regulated entities and other parties seeking to get innovation ideas off the ground. This would be particularly helpful where Ofwat could help link organisations with fitting ideas, into the competition process.

Conclusions

Overall, we are very supportive of Ofwat's proposals to drive innovation and we are very welcoming of the funding itself.

We warmly welcome the fact that Ofwat view innovative ways of doing things (systems, processes, people, business models) as being just as important as technology innovation.

Innovation in addressing affordability and supporting vulnerable customers should be explicitly included in the funding competition and we believe there is a huge opportunity to deliver life-

changing outcomes for the most vulnerable of customers, through partnership working and cross utility collaboration.

Thank you once again for the opportunity to comment to this important consultation.

Yours sincerely,

Gearoid Lane (CEO)