



## *Action for Warm Homes*

### National Energy Action (NEA) response to Ofwat's consultation on charging innovation to support affordability

November 2022

#### About National Energy Action (NEA)

NEA<sup>1</sup> works across England, Wales, and Northern Ireland to ensure that everyone in the UK<sup>2</sup> 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.

Prepared by:



## Background to this response

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 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 Affordability which aimed to provide greater support and more consistent outcomes to households facing financial difficulty, and we continue to contribute to the ongoing development of the Single Social Tariff. 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.

In October 2021, we facilitated a design sprint with Northumbrian Water at their Innovation Festival. Our sprint, 'Tip Top Tariffs', which asked "how can we design new, dynamic, and flexible, customer centric tariffs which meet efficiency and affordable bill challenges now and in the future?"

We focused on looking at tariffs outside of standard affordability support, and instead aimed to design tariffs which address multiple water company challenges. We believe our three prototype designs did just that and would therefore fit comfortably into the requirements for the proposed charging trials. We shared our summary paper with Ofwat in January 2022, but for ease, we have also included the summary as an appendix to this response.

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 feel we are well placed to comment on Ofwat's consultation to change the charging scheme rules from April 2023.

We would be happy to discuss any of the points raised within this response further.

## Executive Summary

Recognising that one size does *not* fit all is extremely important when considering how best to improve the affordability of bills, especially for customers at risk of struggling to pay. To trial new charges, specifically those which are better structured to support affordability, is a welcome move by Ofwat. Linking this to environmental improvements provides increased benefits, which in turn have the ability to reduce the overall cost-to-serve of customers.

Following our sprint at Northumbrian Water's 2021 innovation festival, we believe there is scope for a number of alternative tariffs which could support affordability while addressing a number of other challenges, including, but not limited to, water efficiency, customer-side leakage, and medical reliance on water. 72.5% of the customers surveyed before this sprint told us they would like more choice around tariffs for their water bill;. By providing choice, customers are likely to become more engaged with their supply of water and could potentially value water more overall.

We are also responding to the statutory consultation on the changes proposed to the charging scheme rules from April 2023. In this response we highlight the following key areas for consideration:

- Ofwat should provide additional guidance on how the principles under rule 12 (including fairness and affordability) will be applied, to ensure all companies do so in a consistent manner
- Ofwat should outline their course of action should they deem an undertaker has not acted in accordance with these principles, as well as an appropriate reporting or escalation route for stakeholders to report if these have not been acted on
- Ofwat should provide additional clarity on how success should be measured, the process to roll-out or scale-up successful trials, and the process to share findings (positive and negative) with other undertakers to avoid duplicated effort
- Ofwat should ensure appropriate safeguards are in place for customers participating in the trials, including:
  - o A guarantee that low-income and/or vulnerable customers are never worse off as a result of participating in the trial; and,
  - o The ability for customers to exit the trial at any stage.

## Summary of our recommendations

In summary, we have outlined the following ten recommendations for consideration:

1. Ofwat must ensure that any charging trials must abide by the rules of the customer focused licence condition, which is currently under development.
2. Ofwat must make use of all regulatory tools to ensure customers participating in trials are appropriately safeguarded, including:
  - a. Ensuring that low income and/or vulnerable customers are not worse off for participating in a trial; and,
  - b. Customers are able to exit the trial at any stage.
3. If incentivised, charging trials should be treated as reputational and not financial, to encourage increased participation across the industry.
4. To ensure that all companies apply these principles consistently, Ofwat must provide additional guidance, including the course of action should they deem an undertaker has *not* acted in accordance with these principles.
5. Companies should involve a range of customers and/or their representatives in the design process, applying the principles of co-design to develop solutions more aligned to customer needs.
6. Ofwat have proposed a principle to design trials based on an understanding of customers' needs and characteristics; this could be strengthened by requiring their participation in the design.
7. Ofwat should include an additional element in their good practice principles, which allows customers to exit the trials at any stage without difficulty, and without suffering any detriment.
8. Identical trials are undertaken in more than one company area to improve the quality of the results.
9. Rather than *encouraging* shared learning of trial results and previously conducted trials, we recommend Ofwat strengthens this principle to *require* shared learning.
10. In supporting good practice trials, Ofwat should provide additional clarity and support in three key areas:
  - a. how success should be measured;
  - b. the process to roll-out or scale-up successful trials; and,
  - c. the process to share findings (positive and negative) with other undertakers to avoid duplicated effort.

## Our response to this consultation

The remainder of this consultation response provides our responses to the questions posed within the consultation document, in order.

### **Q1. Do you agree that companies should be looking at how they can introduce charging innovation to support affordability, as well as supporting environmental goals?**

Yes.

Customer choice in the water industry is extremely limited; currently customers can only choose between being metered or unmetered, and quite often that choice is taken from them if they move into a new build property or a home which already has a meter installed. Domestic customers also don't have the ability to choose their water company, given the industry operates a regional monopoly structure. This often leads to customers being disengaged with their water services, and feeling they lack control in being able to manage the cost of their water. For this reason, we support the opportunity being offered to companies to improve the choices available to customers through charging innovations. By introducing tariff options which link affordability to other goals, such as increased water efficiency, we would expect to see greatly improved awareness and value of water as a service, and in turn would expect to see improved outcomes across multiple areas.

The current cost of living crisis is placing unprecedented pressure on household finances. Work is underway to develop a single social tariff to support customers on the lowest incomes, but this crisis is reaching many who would not qualify for support under that scheme, and the timelines for implementation will not offer support at this crucial time. As water bills are often the first to go unpaid in times of financial difficulty, it is important that companies do all they can to support customers who are, or are at risk of, struggling to pay.

Anecdotally, we have heard that some water companies have seen substantial increases to the number of customers requesting a water meter be installed at their home. We believe this is indicative of customers trying to take control of their bills and become more aware of the water they use. In extreme situations, this could pose the risk of self-rationing of water, and this risk should be monitored by companies through consumption data. Increased levels of metering can also have a negative impact on future events; personal events, such as illness, can unintentionally, and unavoidably, increase water use and therefore bills, and larger events, such as the recent pandemic, can see metered customers being at increased risk of detriment as they spend more time at home. These are risks which need to be carefully considered.

However, increased levels of water awareness also offer an opportunity; if customers are becoming more aware of their water use, then it is likely that how they value water will also change, and metering has long been considered the fairest way to pay for water. The introduction of smart water meters also allows for more real-time bills, with customers seeing the changes they make have an impact on a more frequent basis rather than the six-monthly meter readings currently undertaken. This, therefore, has potential to significantly impact other water goals, such as increased levels of efficiency of this vital resource as customers change their behaviours and attitudes to better manage their bills.

## Q2. Do you have any comments on our regulatory framework for protecting customers, in the context of charging innovations?

Ofwat must ensure that their regulatory framework provides appropriate safeguards for customers involved in charging trials. This may require processes that step outside of the standard requirements of water companies and will likely require some bold steps when considering the approach in PR24. We encourage consideration of the following areas:

- It is vital that **any charging trials must abide by the rules of the customer focused licence condition, currently under development**. The principles outlined under this condition should ensure that customers are always treated fairly and are provided adequate opportunities to share their concerns with their water company. This licence condition will be supported by supplementary guidance, which should also include reference to the charging trials and how the principles can apply.
- **Ofwat must make use of all regulatory tools to ensure customers participating in trials are appropriately safeguarded**. This should include the ability for a customer to exit the trial, and a guarantee that low income and/or vulnerable customers will not be any worse off due to their participation. The regulatory framework should therefore include suitable routes to report instances where these safeguards have not been applied, and appropriate enforcement actions where companies are deemed to have acted outside of the principles.
- The consultation document outlines current financial and reputational incentives used in the industry. It is our belief that **if incentivised, charging trials should be treated as reputational, to encourage increased participation across the industry**. Alongside this, there should be regular evaluation and reporting requirements throughout the trials, not just on completion. This will allow companies to identify and address potential issues or complications, adjusting their tariff designs as appropriate. This offers an additional level of protection for consumers and ensures water companies are not financially rewarded for changing their tariff structures.
- The Charging Rules proposed in the statutory consultation outline the introduction of a new rule 12, outlining four principles which charging innovations should meet. This includes the principle of 'fairness and affordability', however there is no additional clarification on *how* these principles should be applied. **To ensure that all companies apply these principles consistently, Ofwat must provide additional guidance, including the course of action should they deem an undertaker has *not* acted in accordance with these principles**. This guidance should also outline how external stakeholders could report concerns that the principles have not been acted on.

## Q3. Do you have any comments on our proposed principles for good practice charging trials?

Involving a range of customers and/or their representatives in the design of charging trials will add substantial value and insight to the process. This will help companies to design tariffs based on customer needs, and which address some of their barriers to participation. The Tip Top Tariffs sprint included a wide range of stakeholders, who were able to provide different perspectives on the key challenges to be addressed, which helped generate a wider range of ideas. Applying the principles of co-design will be more likely to generate a comprehensive, well-targeted design. **Ofwat have proposed a principle to design trials based on an understanding of customers' needs and**

**characteristics; this could be strengthened by requiring their participation in the design.** Designing tariffs in this way will also improve overall acceptability of the trials.

We note, and agree with, Ofwat's proposals for assessment and evaluation to be designed on an ex-ante basis. We agree that this will strengthen the process, rather than relying on evaluation once the trials have been completed. However, we also understand that it is Ofwat's intention for companies to design their evaluation on an individual trial basis, yet to make it comparable across companies – noting that Ofwat believe this may not be achievable in 2023-24. To mitigate this risk, we believe **it would be appropriate for Ofwat to work with water companies and agree an evaluation process which can be utilised across all charging trials.** Doing so would ensure that results are comparable, and that evaluation is strongly linked to the principles of design. It would also allow for results from the implementation year (2023-24) to be comparable and consistent.

We welcome Ofwat's inclusion of a principle which supports the full diversity of customer needs; we believe there could be substantial benefits to be realised by customers in vulnerable circumstances from these trials, and therefore they should not be discouraged or exempt from participating. Ensuring that adequate support is provided, not only to initially engage with the process, but to completely understand the trial throughout the time they are involved, will be vital to ensuring they can benefit fully. This will help companies to develop resources for future roll out of the trials should they prove successful.

As outlined in our response to the statutory consultation on charging rules, we recommend Ofwat ensures appropriate safeguards are in place for customers participating in these trials and believe this should fall under the principle of customer engagement and support. We therefore welcome the proposed element to support customers struggling to pay by offering reduced tariffs to certain trial groups, as this will allow customers on social tariffs to participate in charging trials without being any worse off. **We recommend Ofwat includes an additional element, which allows customers to exit the trials at any stage without difficulty, and without suffering any detriment.**

We agree that it would be beneficial for companies to collaborate on the design and implementation of charging trials, and, further to this, **we recommend that identical trials are undertaken in more than one company area to improve the quality of the results.** This may be an area in which Ofwat could consider incentivising collaboration and rewarding companies who actively collaborate for doing so. Collaboration of this kind could indicate where regional differences impact the outcomes of the trial or prove customer willingness and/or benefits to participate; both of which would enhance the future scalability of the trials. In addition, it could offer valuable insight to be shared with other companies who operate in areas with similar customer make-up or environmental challenges. **Rather than encouraging shared learning of trial results and previously conducted trials, we recommend Ofwat strengthens this principle to require shared learning.** As this is encouraging innovation, this could be facilitated through the Centre for Excellence (Spring) as required under the Innovation Competition.

#### **Q4. Do you have any comments on Ofwat’s role in supporting good practice charging trials?**

We agree with Ofwat’s proposals to support customer communications to increase confidence in the trials, and also to ensure that companies cannot receive increased revenue from these trials – this supports our recommendation to ensure that no low income and/or vulnerable customer is worse off from participating in the trial, even if this is just about customer perceptions rather than actual increases in price.

In our response to the statutory consultation on charging rules, we have recommended that **Ofwat provide additional clarity and support in three key areas:**

- **how success should be measured;**
- **the process to roll-out or scale-up successful trials; and,**
- **the process to share findings (positive and negative) with other undertakers to avoid duplicated effort.**

In addition to providing support in the development of the evaluation processes, Ofwat should provide further details on how they determine success is measured, and, following a successful trial, how the trial should be rolled-out or scaled-up further to be offered to all customers. Once established, these should be provided as written guidance to allow future trials to align to the same principles.

As suggested in 4.4.2 of the consultation document, we agree that Ofwat do have a role to overcome any potential tensions between companies for sharing good practice and learning. In our response to Q3, we have recommended that Ofwat strengthen their principle to *encourage* shared learning and make this a requirement (as has been done for the Innovation Competitions via the Centre for Excellence). There are substantial benefits available to companies by doing so, not least that it removes duplication of effort. Doing so will also minimise the risk of worsening the postcode lottery across the industry, as companies will be more likely to offer similar tariffs to their customer base to that offered by neighbouring companies.

#### **Q5. Do you have any comments on the discussion regarding our charging rules and related regulatory compliance?**

We have submitted a separate response to the statutory consultation on charging rules which outline our thoughts in this area.

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1 For more information visit: [www.nea.org.uk](http://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.

### Tip Top Tariffs: Water your way

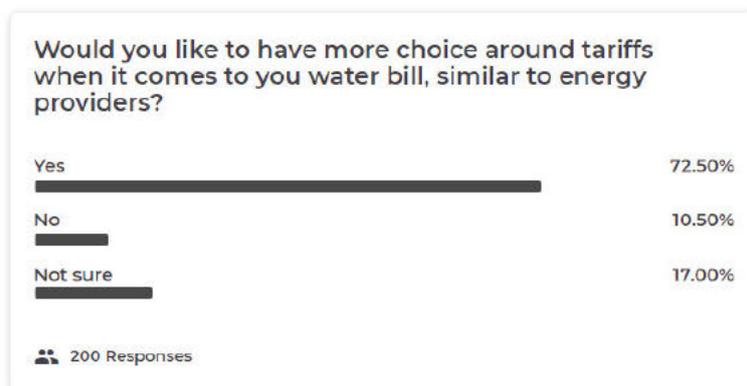
Innovation festival design sprint – summary paper  
18<sup>th</sup>-21<sup>st</sup> October 2021

**Sprint question:** *How can we design new, dynamic, and flexible, customer centric tariffs which meet efficiency and affordable bill challenges now and in the future?*



The purpose of this design sprint was to explore if water tariffs could be redesigned to address multiple challenges facing both the water industry and their customers. Recognising the ongoing work towards a single social tariff, this was not about providing additional support to those eligible for pre-existing affordability support, but about identifying additional needs and developing potential tariffs to meet those needs. Essentially, could we address some key challenges by giving water customers *choice*?

Prior to the sprint, we undertook some engagement with NWL customers to understand how important the concept of choice is to them when thinking about water.



The results of the ‘one pulse poll’ were clear – customers wanted more choice, but we also needed to understand what that meant, and why. We followed this up with some open questions to the HYS community asked whether customers understood their water charges, if the existing structure for water charges met their needs, and if they would prefer a fixed cost or variable charge.

*“I don’t look at bills just at what I’m paying. Want to pay less, use less. Can’t switch like other utilities so you’re over a barrel”*

*"I suspect that those who use a lot of water/have large households will say they'd prefer a fixed tariff while those who conserve water/single households would prefer to only pay for what they use. I know I'd rather pay just for what I use because I do so much to save water, it would nice to be 'rewarded' by having a lower bill than others."*

*"I can see arguments for both fixed and variable charging, but personally I'd sooner have a fixed sum. If a variable was included within the pricing i.e. a standing charge that covers a reasonable usage amount, and then a variable that accounts for excessive use. As long as it considers real life need, and not base to trip people up. But is that too much to expect, fair prices?"*

This customer insight was presented to our sprint team, along with a series of expert presentations to help frame the scope of the sprint:

- **Andrew Lincoln, Ofwat**, provided an overview of the balance that needs to be found between meeting company requirements and addressing customer needs
- **Chris Whitehead, Citizens Advice Newcastle**, provided the team with a detailed summary of the various challenges their clients represent, and the reasons why more tailored solutions are needed
- **Andrew Ledger, Northumbrian Water**, provided the team with an insight into the smart water metering programme, highlighting the opportunities smart water metering may provide; and,
- **Sarah Bowerman, Northumbrian Water**, gave a thorough overview of the water efficiency challenges the company is trying to address, alongside the links with other industry challenges.

From these, our sprint team was motivated to work through 'how might we questions' and our barriers, to generate our overall sprint goals:

**"In two years' time:**

- **all customers will have a choice of tariffs and those who need help are aware of their options**
- **we will be using data from third parties to be able to add customers onto a suitable tariff based on household circumstances; and**
- **we can balance tariff options with water efficiency rewards"**

Using tools such as empathy mapping, lightning demos, and brainwriting, our sprint team was able to understand the challenges some discrete customer groups were facing, and generated a total of 22 potential tariff ideas, ranging from a tariff which covered all utility bills, to tariffs including 'free' blocks of water, and even a tariff which included skills training for customers to improve their digital skills. Of these ideas, four were taken through to the concept stage:

1. A water efficiency tariff which rewards efficient use with the customers' preferred reward
2. A tariff which includes the peace of mind provided by Homeserve (Homecare)
3. A tariff designed for high users of water not qualifying for Watersure (Watercare)
4. A rising block tariff with the standing charge removed.

The concept stage saw each of these ideas developed further, considering, for each tariff idea, the minimum requirements needed both for customers to be eligible and for company-side tariff management, the customer groups most likely to choose the tariff, and the unique selling points that might encourage someone to choose it.

Only one concept was dropped following this stage – option four, a rising block tariff with the standing charge removed. This tariff would have removed the standing charge and increased the unit price of water to account for this, resulting in customers paying only for what they use. Additionally, the concept of a rising block tariff would be applied, which was suggested as follows:

Block	Basic entitlement – essential water use	Efficient water use	Additional water use	Discretionary ‘non-essential’ water use
PCC	≤ 80 litres	81 – 140 litres	141 – 199 litres	≥ 500 litres
Unit Price				

As this concept was being developed, a number of questions arose (including verification of occupancy levels, and possible self-rationing) which the sprint team felt could not be resolved in our remaining time and so a collective decision was made to not progress this concept to the prototype and testing stages. However, the group agreed that there is potential with the idea and suggested it could be considered outside of the sprint process.

The prototype stages resulted in the following designs for each of the remaining three tariffs:

Water Efficiency Tariff	
<b>Summary</b>	This tariff is designed to incentivise lower water consumption through rewards, without penalising those who don't reduce their usage.
<b>Target customers and eligibility</b>	Open to all customers with meters or smart meters (could be used as the default tariff for metered customers).
<b>Description</b>	<p>Upon registration, bill payers could choose from a range of rewards, which may include:</p> <ul style="list-style-type: none"> <li>- Donations to local charitable causes</li> <li>- Contributions to green causes</li> <li>- Individual discounts/ rewards related to points accrual (similar to Nectar card).</li> </ul> <p>As circumstances and preferences change, customers would be able to change their reward on an annual basis.</p> <p>Regular engagement with useful tips and ‘nudges’ would encourage households to reduce their consumption. This would be undertaken via a range of methods, dependent on the customers’ preferences and metering type. For smart meters, this could be through the smart app. For metered customers, this could be through the billing app or portal. Digitally excluded customers would require non-digital methods of engagement but should still receive information about their consumption outside of standard billing processes.</p> <p>Once households have reached the ‘safe’ range of consumption, they would move to the ‘maintenance’ rewards package, only earning rewards if they remain within their safe range without increasing or decreasing their consumption significantly. These rewards would be of lesser value and could be a voucher issued with their billing cycle, linked to ODI performance.</p>
<b>Other points of consideration</b>	Baseline to be determined on an individual basis based on historic household water consumption. Where the household was previously unmetered, an

	<p>estimate of household consumption can be taken and then adjusted in 6 months.</p> <p>A 'safe range' would need to be determined, as the level at which households would no longer be encouraged to reduce their consumption due to the risk of self-rationing behaviours.</p>
<b>Homecare</b>	
<b>Summary</b>	This tariff provides peace of mind by including Homeserve in the tariff, so no costs are incurred if something goes wrong with their plumbing or drainage.
<b>Target customers and eligibility</b>	Designed with customers who are 'Just About Managing' in mind, encouraging unmetered customers to move to a smart meter. Not suitable for anyone who has cover included with their home insurance or other similar policy.
<b>Description</b>	<p>For customers meeting pre-defined income eligibility criteria (which would be less strict than social tariff eligibility to include JAM customers), they would have Homeserve built into their tariff at no extra cost. If the customer did not meet this income criteria, they could still have Homeserve added to their tariff, but at an additional cost.</p> <p>Customers would not need to worry about the unexpected costs of repairs should anything go wrong with their plumbing or drainage and could have additional reassurance that issues would be identified quickly due to the smart water meter (this being recognised as a concern for meter adoption).</p>
<b>Other points of consideration</b>	<p>Water efficiency audits can be offered as part of the registration process, to address additional company challenges.</p> <p>The costs of repair, often incurred by the water company (such as leaky loos and repairing pipes) would be covered by Homeserve instead, reducing the burden on the company. This would also remove the need for landlords to find contractors to facilitate repairs (though the involvement of landlords does need to be considered as part of the design process).</p>

<b>Watercare</b>	
<b>Summary</b>	This tariff supports high users of water who don't qualify for Watersure but do meet the 3% bill-to-income assessment.
<b>Target customers and eligibility</b>	Open to customers who do not qualify for Watersure (due to benefit entitlement). Customers will still spend more than 3% of household disposable income on their combined bill, and will have either medical needs requiring high usage, or a large family. Customers will need to be metered.
<b>Description</b>	This tariff would provide a bill cap to customers meeting the eligibility criteria in a similar way to Watersure, allowing them to use the water they need without worry. In addition, registration would prompt a home water efficiency visit and associated water saving devices, to encourage customers to save water where they can (without compromising on their health needs).
<b>Other points of consideration</b>	Need to design a simple way for customers to provide evidence (similar to Watersure) and a method of referrals (primarily based on trust with a proportion audited).

As part of the sprint process, representatives from our sprint team tested these tariff ideas with the 'Customer Fan Zone' to get initial thoughts. Feedback was broadly positive, and has been summarised below:

Water Efficiency Tariff	Homecare	Watercare
<p>This was appealing on the surface, but fan zone customers felt they would need more information, or to see it tested before making a commitment.</p> <p>The introduction of a 'safe range' to safeguard customers was very welcome, and it was clear that messaging would need to be well thought out to avoid additional stresses or risk of self-rationing.</p> <p>The nectar card reward points approach was the most popular, with only 1 customer suggesting they would choose the charity or green cause option instead.</p>	<p>Most of the customers had not considered this before as they assumed it was covered in their home insurance. Once they knew how much a leak could potentially cost, they were definitely interested in hearing more.</p> <p>It was felt that they had enough trust in their water company to include this in bill and know that their issues would be resolved to a high standard.</p> <p>Unmetered customers would be willing to move to a meter with this tariff, provided they could see their unmetered bill alongside it to see the savings they were making.</p>	<p>There was an overwhelming agreement that this was the right thing to do for customers who cannot control their water use through no fault of their own.</p> <p>It was seen as positive that it would require a minimum of a 3% bill-to-income ratio.</p> <p>It was agreed that evidence of circumstances should be provided, and suggested that charities, debt advice companies, and perhaps health organisations, could submit applications on behalf of the customer.</p>

The sprint team suggested that additional development work could take place for each of these tariffs, involving NWL experts as required. This would be done with approval from NWL senior management, and ideally with agreement from Ofwat that the ideas could be progressed within the current charging rules. In addition, it would be worth considering the other tariff ideas, including the rising block tariff, to see if any other options could be viable.

The sprint leads will make arrangements to discuss the outcomes of the sprint with relevant senior leaders and will create a project plan to develop the concepts further should it be agreed appropriate to do so.