

May 2023

**Putting water customers first  
– a consultation on introducing  
a customer-focused condition into  
the licences of all water companies  
in England and Wales**

**ofwat**

## About this document

In this document we are consulting on our proposal to modify water company Instruments of Appointment (referred to as licences) to set clear and binding expectations on water companies, including new appointees, with regards to the service and support they provide to household customers and non-household customers in England and Wales who are not supplied by a retailer.

We have worked with the Consumer Council for Water (CCW), which is the customer representative body for water customers in England and Wales, and stakeholders from across and outside of the water sector, to understand the risks and opportunities associated with introducing conditions relating to customer service. We:

- hosted workshops through Autumn 2022 attended by representatives from companies and stakeholders, including customer representatives from within and outside the sector, and held one-to-one meetings;
- carried out a stakeholder survey; and
- invited comments to our dedicated email inbox.

In partnership with CCW we also carried out customer research to explore the draft scope of the licence condition directly with customers.

All of the feedback we received have informed our proposals within this consultation. Details of this informal engagement can be found on our [Customer-focused licence condition webpage](#).

As well as consulting on draft wording for the licence condition, this document explores our current thinking on related policy areas and approaches. Following the consultation, we intend to finalise the wording for the proposed licence condition and carry out a statutory consultation under sections [12A](#) and [13](#) of the Water Industry Act 1991 (WIA 91). We intend to do this later in 2023.

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## Responding to this consultation

We welcome your views on the questions in our consultation, set out below.

### Consultation questions

1. Do you have any comments on the outcomes or examples?
2. Do you have any suggested changes to the proposed wording of the principles to meet our specified outcomes for households?
3. Do you agree with our proposed approach to exclude non-households from the condition relating to customers struggling to pay or in debt, consistent with corresponding non-households served by a retailer?
4. Do you agree with our proposed approach that the remainder of the licence condition apply to non-household customers without a retailer?
5. Should any areas of customer service be prioritised in our development of the guidance? If so, which areas?
6. Which matters / company activities will benefit from having more detailed guidance, and which less?
7. Do you agree with our proposal to include reference to CCW as a consultee within guidance?
8. How can we gather further insight on company performance in this area?
9. What are your views on annual reporting requirements to monitor compliance against the licence condition?
10. What are your views on our proposed timescales for implementation?
11. What are your views on consequent changes to other conditions in licences and are there any other changes we should make?

Please email your response to [customerfocus@ofwat.gov.uk](mailto:customerfocus@ofwat.gov.uk) or post to:

Customer Licence Condition Consultation response  
Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

The closing date for this consultation is 5pm on Friday 7 July 2023. If you wish to discuss any aspect of this consultation, please contact Customer Policy Team by email at [customerfocus@ofwat.gov.uk](mailto:customerfocus@ofwat.gov.uk)

We intend to publish responses to this consultation on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk). Subject to the following, by providing a response to this consultation you are deemed to consent to its publication.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed and provide a redacted version of your response, which we will consider when deciding what information to publish. If we receive a request for disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. At a minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

In relation to personal data, to assist us in ensuring that we do not publish any, please do not include the following information in the body of your response:

- Names of individuals below director level
- Personal email addresses or direct contact phone numbers.

We request that you check that this information is not included in the footer of the documents provided. Follow up contact details can be provided in any cover email or letter you send with the formal response.

In addition to our ability to disclose information pursuant to the WIA 91, information provided in response to this consultation, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

## 1. Overview

Across England and Wales many people are satisfied with services they receive from their water company (or companies - if they have different suppliers for water and wastewater). And there are many examples of where water companies and their staff are going above and beyond for their customers.

But there are also many instances where customers feel let down, for example:

- Companies failing to support and communicate with customers or manage complaints and compensation fairly when things go wrong;
- Repeated failures, where water companies aren't learning from their mistakes which result in customer detriment – or foreseeing and acting quickly enough to meet customers' diversity of needs;
- Many people have lost trust in water companies and don't feel they have their customers' interests at heart.

We are proposing to establish a new regulatory basis for how companies treat their customers, including customers in vulnerable circumstances, in the form of a dedicated condition in the licence of each water company in England and Wales. Licence conditions can help increase companies' customer focus and incentivise the very best service for customers while ensuring that we have the right mix of tools to effect change when service falls short.

This draft licence condition builds on our wider customer policy work to meet our strategic aim of seeing **high standards of customer service and support for the full diversity of customer needs across the water sector**. We see the new licence condition as achieving improved outcomes for customers as follows:

- Customers are well informed;
- When something does go wrong, affected customers have confidence their company will put it right;
- The full diversity of customers' needs is identified, understood and met by companies in the services and extra help they provide.

To achieve these outcomes, we are consulting on a series of draft principles which we propose form the new licence condition. These principles would be complemented by more detailed guidance. The new draft principles and guidance would replace the current Condition G and are set out in full in Chapter 8.

Companies will need to ensure that they have systems and processes in place to deliver accessible and timely communications and embed a customer focused, continuously learning culture across their business, including with third parties who are working on their

behalf. It will require companies to make a critical assessment of their offerings to customers, recognise areas for improvement and map out appropriate steps to achieve these improvements.

Companies will need to work together on elements of this, as we expect more shared learning across the sector when it comes to achieving high standards of customer service, particularly in the management and response to incidents.

### **Who will it apply to?**

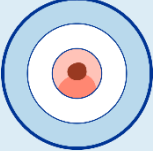


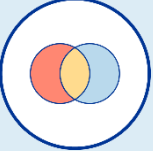
We are proposing to introduce this licence condition to licences of all water companies, by which we mean those holding an instrument of appointment for an appointed area as a water and/or sewerage undertaker. This includes new appointees, also known as NAVs, which are small water companies that typically supply some new housing developments. We are proposing that the licence condition relates to household customers in England and Wales. In a more restricted form, we are proposing that it encompasses companies' treatment of business customers (also referred to as non-household customers) where they are not supplied by a retailer: in practice this means all but the largest business customers of Welsh companies, and business customers of new appointees in both England and Wales.

### **What will it cover?**

The draft licence is designed to require companies to develop and implement systemic approaches in order to meet the principles, and it will be used in relation to customer service failings which indicate a company has failed to do this. Some of the benefits we expect to see are set out in Table 1 below.

The licence condition will not be a tool to enforce against individual customer incidents. These are handled through CCW's complaints resolution powers.

**Table 1: Benefits of the proposed new licence condition**

			
<p><b>Licence conditions can help increase companies' customer focus</b> and incentivise the very best service for customers and ensure that we have the right mix of tools to take action and effect change when service falls short.</p>	<p><b>We expect the new licence condition to empower stakeholders</b> such as charities and customer groups to challenge and influence companies in how they improve their support for customers. Stakeholders across the sector will also be an important source of insight for us in understanding company performance and behaviour in relation to customer service.</p>	<p><b>The licence condition will provide additional protections</b> for business customers in Wales where there is no choice of retailer. Business customers in Wales will be covered by almost all the same principles as household customers. This will be particularly beneficial for small businesses who may struggle with their limited resources to engage with their water company.</p>	<p><b>We will continue to engage</b> with other customer organisations and charities to understand customer trends, as well as working on cross-regulatory issues and learning from developments in other sectors in order to develop the guidance underpinning the licence condition.</p>

### What happens next?

In the rest of this document we set out how we propose the draft licence condition will work and how we plan to use it, including the role of guidance and monitoring companies' compliance.

Following consideration of the responses to this consultation, we will carry out a formal consultation on the final wording we propose, in line with statutory requirements in England and Wales. Alongside promoting and raising awareness of the new licence condition, we propose to implement it in Quarter 3 2023-24.



## 2. Background and context

### Role of the licence

Water companies are appointed under the WIA 91 to operate the water networks for their appointed area, in line with the statutory and regulatory framework. They supply water and wastewater services direct to household customers (and in some cases to non-household customers) who are connected to their networks.

We enforce licence conditions in line with our policy '[Ofwat's approach to enforcement](#)' which sets out how we decide upon what regulatory action to take in relation to suspected contraventions of company licences, including the process that we follow when we do take action. If we are satisfied that a company has breached a condition of its licence we can take formal enforcement action to secure compliance, which can include fines of up to 10% of the company's turnover<sup>1</sup>. We use a range of tools from informal to formal enforcement action depending on the scenario.

New appointees are small water companies that typically serve some new housing estates. It is our intention that this new licence condition will apply to new appointees, although we recognise the need for proportionality in relation to the steps they are required to take to meet the principles in some cases, and we intend to address this through guidance.

### Which customers will be protected?

The licence will apply to all companies in relation to customers who meet the definition of "Appointee's customer" in incumbent water companies' licences. In respect of English incumbent companies, this means that it will apply in relation to all household customers, including customers in mixed-use premises with a shared supply for which the principal use of the premises supplied is as a home.

Almost all non-household customers in England<sup>2</sup> receive retail services from separate companies<sup>3</sup> (business retailers). A framework around customer care exists in relation to those customers, with the detailed obligations business retailers owe to customers set out in the [Customer Protection Code of Practice](#). Obligations between the water companies and the business retailers, including specific obligations to ensure business retailers can provide appropriate services to customers, are set out in licences and market codes. We are

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<sup>1</sup> Ofwat's Statement of policy with respect to financial penalties

<sup>2</sup> That is, non-households located in the area of any company whose appointed area is wholly or mainly in England.

<sup>3</sup> Business retail market – Ofwat

conducting a review of the Customer Protection Code of Practice for business retail during 2023–24, which will give us a separate opportunity to consider these.

However, there remain some non-household customers in England who are served by new appointees, because those new appointees have not exited the non-household retail market. Therefore we propose that the new licence condition should apply in relation to all customers of new appointees who have not exited the non-household retail market, with appropriate modification to ensure that the obligations it imposes in the context of non-household customers are appropriate.

In Wales, almost all non-household customers are served by the water and wastewater companies (that is, there is very limited competition for business customers). For this reason we are proposing that the new condition will apply in relation to these customers in Wales, as well as to all household customers, with modification to ensure that the obligations it imposes in the context of non-household customers are appropriate. We cover this in more detail in Chapter 5.

## Licence Condition G

We are proposing that the new draft principles and guidance would replace the current Condition G within company licences. The current Condition G of companies' licences defines core customer information and the provision of it. It also sets out a process for reviewing that information provision. The existing provision is rule-based and specific, restricting companies' ability to innovate. Because it is in the licence, we are not readily able to amend these requirements in response to changing societal and customer needs and expectations. We set out how we will reflect these requirements within the new licence condition in Chapter 8.

## Stakeholder engagement and customer research

Through the summer and autumn 2022 we ran a series of [workshops](#) which were attended by water companies and interested parties. Over the course of these workshops, we considered the outcomes, principles, role of guidance, monitoring and enforcement of a customer focused licence condition. Alongside these workshops we:

- invited submissions into a dedicated email inbox;
- held one-to-one meetings; and
- carried out a survey of key stakeholders on the need, role of and scope of the licence condition.

We have also included customers' views in the development of the licence condition. Together with CCW, we commissioned customer research ([published](#) alongside this consultation) to understand what customers want to see from their water and wastewater suppliers when it comes to customer service.

This feedback has helped us in the drafting of the proposed licence condition principles, and in how we consider the role of guidance and monitoring.

## Experience in other sectors

We have reviewed and considered actions other regulators have taken to improve customer service, and their impacts, including the addition of licence requirements within the energy sector and financial services.

The Financial Conduct Authority (FCA), the regulator for financial services, and Ofgem, the regulator for energy, have both introduced new principles relating to customer service within the licence of firms in their sectors (Table 2).

**Table 2: Examples of approaches taken in energy and financial services**

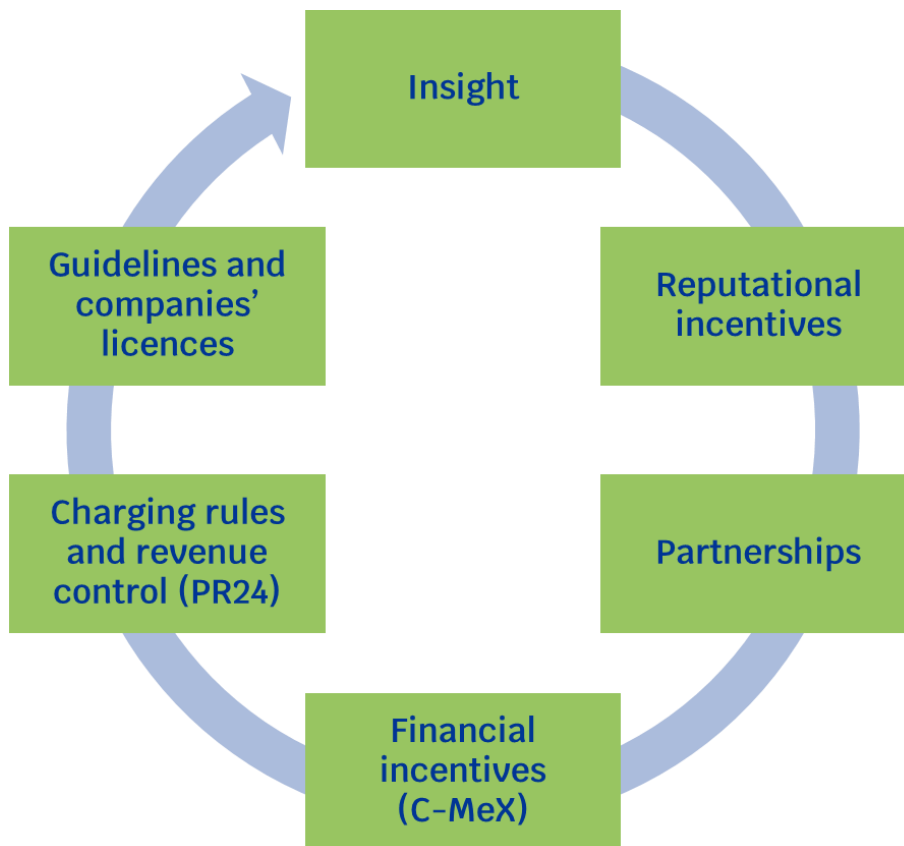
<p><b>In July 2022 the FCA introduced an overarching Consumer Duty to set a higher level of customer protection in retail financial markets.</b></p> <p>The <a href="#">duty</a>, supported by guidance, sets expectations for firms' standards of care towards customers. This Duty has a wider scope than what we are proposing for the water sector given the wider range of activities undertaken by financial firms. However, we have considered carefully the expectations imposed on financial firms in relation to communications and support as part of our consumer understanding outcome, and the consumer support outcome. Financial firms must be compliant with the Duty by July 2023.</p>	<p><b>Ofgem requires energy suppliers to achieve Standards of Conduct, updated in 2019, via a licence obligation.</b></p> <p>These <a href="#">Standards of Conduct</a> focus on treating customers fairly. These are enforceable overarching rules that relate to how suppliers behave, provide information, and carry out customer service processes. In the case of domestic consumers, the Standards also relate to how suppliers seek to identify each consumer in a vulnerable situation and respond to their needs. Given the similarities between energy and water sectors, we have considered the scope and requirements set by Ofgem on energy firms, and where there are synergies with water.</p>
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### 3. Our approach to protecting customers

We have a range of regulatory tools within our framework for providing customer protection and better outcomes which we continue to develop. We highlight these in Figure 3.1 and further examples and detail can be found in Annex 1.

We have a gap in our toolkit which means we cannot take action against companies where they fail to deliver good service to their customers. We expect the new licence condition to complement our existing tools and play a key role in improving outcomes for customers in relation to customer service.

**Figure 3.1: Ofwat's existing tools for providing customer protection**



#### Working closely with CCW

We work closely with CCW to protect customers. CCW role includes:

- handling customer complaints about companies;
- the provision of advice and research; and,

- engagement with water companies on their charges and social tariffs

We have worked with CCW in the development of this licence condition, including commissioning joint customer research. We will continue work in partnership with CCW as we develop and implement this licence condition, including how they can support us in monitoring compliance. CCW provides important insight including through its statutory role in relation to unresolved customer complaints and information gathering, as well as its customer research insight. We see its role as vital in relation to how we ensure companies are adhering to the new licence condition and delivering better outcomes for customers (see Chapter 7). CCW will remain an important consultee for companies in relation to some aspects of customer service, and we will set this out in the accompanying guidance. We will also work with CCW to define what best practice looks like.

## The need for a licence condition

Across England and Wales many people are satisfied with services they receive from their water company (or companies - if they have different suppliers for water and wastewater). And there are many examples of where water companies and their staff are going above and beyond for their customers.

The financial incentive C-MeX is our primary tool for driving improvements in customer experience overall, and we are consulting on this as part of PR24. The findings of the January 2023 UK Customer Satisfaction Index shows, with exceptions, customer satisfaction for water companies to be below the UK cross sector average (as of January 2023, at 74.8 and 77.7 respectively, with the energy sector average at 70.3). Within that, evidence from C-MeX and elsewhere reveals that the experience of customers between companies and within companies is mixed.

## Example areas for improvements

We have published expectations in relation to the customer service companies provide. Notable among these are our [Paying Fair Guidelines](#), our joint [Complaints Practice Report with CCW](#), and the follow-up report [Improving complaint processes 2021](#) (more detail in Annex 1). Our joint complaints reports and the Paying Fair guidelines have led to improved focus in both areas, however there continue to be actions or inactions by companies which are contrary to our expectations. For example, there continue to be instances where customers experience **poor complaints journeys**.

We also continue to hear about occasions where customers whose accounts are managed by debt recovery agents do not receive the **same level of service** and care as those whose accounts remain with the water company.

The sector has also witnessed on several occasions during supply interruptions a reluctance on the part of companies to cater adequately to the **diverse needs** of their customers, such as those whose health could be put at risk, or those with mobility problems who may be unable to reach water bowsers or alternative supplies.

Whilst the introduction of the reputational common performance commitment for the Priority Service Register (PSR) has resulted in a major quantitative shift in companies' recording of their customer' extra help requirements, it has not necessarily compelled companies to provide the required assistance when it is needed. There have been occasions when for example companies have failed to vary the content and the style of delivery of their **communications** so that the information contained within can become more meaningful to their customers.

Our investigations and subsequent [report](#) on water companies responses to the [Beast from the East](#) (2018) revealed significant **customer service failures** on the part of companies. More recently, we wrote to all water companies in January 2023 to ask for details of preparations for and responses to the December 2022 freeze thaw event. We wanted to understand how well all companies' assets performed and whether an appropriate level of resilience was demonstrated, as well as how customers were impacted and supported. Overall, most companies' handling of the December 2022 event improved when compared to the 2018 freeze thaw. However, we still observed some wider problems, significant disruption being experienced by some customers and areas for learning. We will publish water company responses on our website shortly.

Very recently, our and CCW's joint [Sewage in Homes](#) report also revealed worrying shortcomings in the way companies handled both external and internal sewer flooding events.

### **Box 1: Example of poor service: Poor management of metering resulting in inaccurate bills**

Following the opening of the business water retail market in England in April 2017, around 1.2 million businesses, charities and public sector organisations can choose their retailer. The opening of the business retail market revealed a lack of complete, accurate and timely market data – particularly meter readings – which has continually undermined customers' experience of the market to date. As of April 2023, the Market Operator (MOSL) report that of the 1.29m meters in the market, 23.4% of these have been identified as having a data quality issue.

Customers want timely and accurate bills, and this is simply not possible if the quality of meter data is poor.

Currently we have limited tools to hold companies to account where meter data is poor for households, and hence where there is a risk of poor service and customer detriment. The licence condition will be a means for us to take action where customers are repeatedly failed by issues such as this.

In its current form, the water company licence does not impose any obligations on companies in relation to customer engagement or service, other than on isolated, very specific aspects<sup>4</sup>, and not all our interventions in relation to customer service link back to obligations upon the companies which Ofwat can currently enforce.

For example, although companies' current Condition G requires them to have and publish information about their complaints handling procedures, it does not require those procedures to be of any particular standard.

The new licence condition will tackle systemically poor company behaviour in relation to their treatment of customers and hence provide an important level of protection. It will provide a legal route for us to take action if the company fails to deliver what the condition requires.

As a result, the new licence condition will be a strong incentive for companies to put the customer experience at the centre of their decision making. By requiring companies to put the customer experience at the heart of decision making through meeting the principles, the licence condition is intended to drive companies to achieve good customer service and a continuous improvement mindset.

## **Box 2: Ofwat and CCW customer research on the proposed licence condition**

Early in 2023 Ofwat and CCW jointly commissioned customer research to ensure that the customer voice is included in the development of this new customer focused licence condition. Sixty-four participants took part in a week-long online community. This was followed up by a second stage of 11 focus groups. A further 14 participants, identified as digitally disconnected, took part in diary tasks and telephone interviews.

The aims of this research were to gather insight into:

- Customers' expectations of water and wastewater companies in relation to specific areas of customer service and support.
- Customer views on what principles the new licence condition should include.

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<sup>4</sup> For example, there are some requirements to provide customer information in current condition G, and requirements in relation to customer charges in conditions E and H.

- Customer views on the guidance proposed to support the interpretation of the licence condition.
- The range and diversity of views that customers have in relation to this.

While the sample size was small, it provided valuable insight. The research found that the participants want their water company to **get the basics right** and be easy to deal with, and the interactions to be conducted with respect and politeness. Customers surveyed were also broadly in support of the draft licence principles. The research findings accord with CCW's wider experience of engaging with customers and supporting them with their data on complaints when things go wrong.

We have published the findings from this research alongside this consultation and will consider them, including what is important to customers, as we design the supporting guidance.

## Scope of the proposed licence condition

While our PR24 outcomes regime covers both operational failures and customer experience, it necessarily targets averages, including through C-MeX. There are instances (e.g. the way the company engages in relation to internal sewer flooding) where a relatively small number of customers are impacted significantly, and this would not have a material impact on C-MeX scores. Similarly, a company may successfully deliver its metering programme, but unless the data for those meters (for example location) is accurate and they are maintained, it may result in inaccurate bills and customer detriment.

The licence will build on our previous guidance work, including on complaints, PSR and Paying Fair, by making clear our expectation that customers' needs and expectations should be identified, understood, and met. The draft licence condition will extend to water company activity where third parties work on the water company's behalf, for example where the water company uses a third party to manage customer debt.

The new licence condition will give us a much sharper, stronger way of addressing systemic shortcomings in how companies treat groups of customers, because it will allow us to use enforcement powers to require changes and / or to impose stronger penalties if required.

To comply with the new condition, we expect companies to treat customers appropriately across the full range of interactions they (may) have with them. It will cover, but not be limited to, how effectively they deal with inbound customer contacts, through to the adequacy of support and communication which they provide when something goes wrong. It will not address individual incidents of customers, for which the complaints scheme is the mechanism for redress. However, the licence condition will require companies to provide accessible and easy to navigate complaints processes to empower the customer.



The licence will also cover the support, accessibility, and communication activities in relation to those customers who are struggling to pay, for example tailoring these to individual circumstances and proactively identifying and responding to when customer circumstances change. This will complement our wider toolkit, including our charging rules which support our work to address customer affordability.

## 4. Aspiration and outcomes

In this section we present the outcomes we hope to achieve for customers from introducing a customer focused licence condition, including some insight we gained from our customer research.

### Aspiration

In June 2022 we hosted a [launch workshop](#) for licence condition project in which we explored what a fairly treated customer looks like, and how a licence condition would complement our wider regulatory toolkit. We used these discussions, and our subsequent workshops, to help us establish our **aspiration** which is to see **high standards of customer service and support for the full diversity of customer needs across the water sector**. We see the introduction of a new customer focused licence condition as a significant step towards achieving this.

### Outcomes

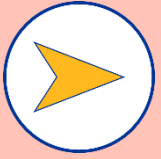
We worked with companies and stakeholders through Autumn 2022 to develop a shared understanding and articulation of the outcomes we expect companies to achieve for their customers now and into the future, governed by a new customer focused licence condition and supported by our wider regulatory toolkit.

We used these outcomes, working with the sector, to develop the draft licence condition, and are what customers should expect in terms of customer service from their water companies.



We do not plan on including these outcomes within the condition itself. However, they set key context within which the licence condition will be practically applied and enforced. We consider that communicating these outcomes within companies and with wider stakeholders can be beneficial in understanding and implementing the new licence condition. We believe recognition of these outcomes in how companies go about adhering to the new principles is important to raise the bar of customer service across the sector.

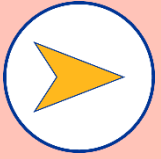
In order to achieve these outcomes, companies need to work together and with wider stakeholders to foster a learning culture that continually seeks to meet the changing expectations and needs of their customers, and tailor their services appropriately in all their customer interactions.

Below, we set out examples against each outcome of good and bad practice. We will expand on these with further examples within the guidance, recognising the draft licence condition's scope.



 <b>Outcome</b>	<h2>Customers are well informed</h2>
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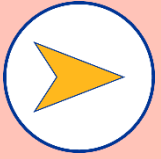
Customers should have a positive experience when dealing with their water company across all forms of communications, including but not limited to, planned and unplanned events, accurate billing and communications, customer queries, and when their company is out and about in the community. Companies should be proactive in their communications, informed by a strong understanding of their customer base as well as good practice in communications.

<p><b>What this means to customers – examples of basic expectations</b></p>	<p>Customers want to see clear, accurate, regular communications on issues including billing and water efficiency. They expect companies to offer a range of communication channels to meet the diversity of customer needs and preferences, and to enable customers to get in touch with their company quickly and easily without long delays or wait times. Alongside this, customers expect to be able to 'speak to a human' when needed without needing to repeat their issue to multiple advisors. They want to experience good customer service which includes company representatives being polite and patient with customers, particularly to those needing extra support.</p>
<p><b>Good practice</b></p> <div style="text-align: center;">  </div>	<p><b>Customer example: Persistent water pressure issue at property</b></p> <p>“I wasn’t sure if this was a supply issue outside the property, so I wanted [WATER COMPANY] to check it. I was able to get through easily to report the problem and see if a visit was possible. The appointment was booked easily, and I was happy with the timeslot. The visit from the engineer happened when it was supposed to, and he carried out some tests and explained to me what might be the problem which wasn’t to do with external supply.” (Female, 55-64)</p>
<p><b>Bad practice and harm caused</b></p> <div style="text-align: center;">  </div>	<p><b>Customer example: Billing error</b></p> <p>“I pay by pay point and then get sent a schedule and I pay it. This time I did not get a schedule and phoned them and said I was not sure what to pay. I was then told they would send a schedule and they did not. I phoned again. They then did send one out and I paid it and got a statement for it. I then got sent a letter to say I owe money and if I do not pay it will affect my credit. I have all the receipts of proof I paid and have tried a few times to call again and could not get through. They should employ someone to sit on the phone to take the calls. These calls have cost me money and stress. They should also not have an automation system because it is frustrating for the elderly like me. All the money goes to the water company, and we cannot get through to someone.” (Male, 45-64)</p>



 <b>Outcome</b>	<p><b>When something does go wrong, affected customers have confidence their company will put it right</b></p>
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We want companies to foster a learning approach to their customer service taking into account the end to end customer journey, utilising the customer experience feedback and data to inform and improve in the future. We want companies to be looking across the sector and beyond to understand how they can continue to evolve and minimise customer disruption. We expect companies to be delivering improvements for the customer through their complaints process.

<p><b>What this means to customers – examples of basic expectations</b></p>	<p>Customers expect companies to promptly deal with incidents, and make provision for alternative water during sustained outages. When incidents do occur, they expect their company to communicate clearly via appropriate channels, and to offer clear and realistic timelines for completion of works. They expect their company to take responsibility when things go wrong, where appropriate make an apology and offer compensation reflecting the impact of the incident on the customer. To learn and implement best practice, companies should evaluate their actions and responses to incidents which includes seeking customer feedback. This includes where failure to appropriately maintain data or assets, e.g. meters, has resulted in customer detriment (e.g. inaccurate bills).</p>
<p><b>Good practice</b></p> 	<p><b>Customer example: Prompt action following reported foul smell</b></p> <p>“During the summer, I noticed a foul smell coming from the bathroom when the toilet hadn't been used. This continued for several days and then one of my neighbours noticed the same but outside in the rear garden. I had checked my drains and could not find a cause, so I contacted [WATER COMPANY] by telephone. The adviser was helpful and courteous and listened fully to the reason for my call. After his initial assessment he advised that arrangements would be made for a technician to visit the property and I would be advised later. I received confirmation of the visit the same day.” (Male, 65+)</p>
<p><b>Bad practice and harm caused</b></p> 	<p><b>Customer example: Burst pipe causing loss of water to an apartment block</b></p> <p>“Our apartment lost water completely. This was concerning as it was the height of summer and I had returned home with a newborn baby just a couple of weeks prior so absolutely needed water! I contacted the water company to let them know our situation as I was aware we would be a priority case. They offered to have water sent out to us should the supply not return by the following day. Though our water supply returned that night, we never did receive the water promised to us nor did we get a follow up call which I would've expected.” (Female, 40-54)</p>

 <b>Outcome</b>	<p><b>The full diversity of customers' needs are identified, understood and met by companies in the services and extra help they provide</b></p>
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Companies must be proactive in understanding their customers' individual circumstances, and proactive in understanding the best way to communicate with them and provide services. Companies should recognise and act when customers' circumstances change. This includes ensuring their services are accessible to all customers.

<p><b>What this means to customers – examples of basic expectations</b></p>	<p>Customers expect companies to cater to a range of diverse needs including: age, household occupancy (e.g. single occupancy, single parent, young children), ethnicity, low-income households and disability. They want their company to identify and support the needs of all customers where possible, including through tailored communications channels for customers in vulnerable circumstances. In some cases this may include offering home visits. Extra support should also be offered to customers who may only need it for a short amount of time. They expect their company to offer affordable payment plans for customers struggling to pay their bills and collaborate / signpost to support organisations as needed.</p>
<p><b>Good practice</b></p> <div style="text-align: center;">  </div>	<p><b>Example: Inclusive service provision</b></p> <p>Many water companies have committed to work towards the British Standard 18477 standard for Inclusive Service Provision – or towards the new and more comprehensive BS ISO 22458 international standard for the design and delivery of inclusive services. In striving to achieve external accreditations such as the BS 18477, companies have to undergo a rigorous process of service design and testing. This provides assurance to customers that they take support for vulnerable customers seriously. Eight companies had achieved BS 18477 by May 2022.</p>
<p><b>Bad practice and harm caused</b></p> <div style="text-align: center;">  </div>	<p><b>Customer example: Complications changing details when move home</b></p> <p>“I called them to notify them of our moving date and gave them our details of when and where we were moving to. Unfortunately, this did not get noted correctly and we ended up with a number of different letters from the supplier with conflicting information.</p> <p>I then had to call them back and explain the error to be sent a further updated letter with again incorrect information. Which again resulted in another call to be told that it's the system, well I am sorry, but someone has to put the information into the system to enable it to be generated. Finally, after several calls and explanations, we finally received the correct information to enable us to make the necessary direct debit payments.”</p> <p>(Female, 55-64)</p>

### **Consultation question**

1. Do you have any comments on the outcomes or examples?

## 5. Proposed wording of licence condition

Here we present our proposed wording for the licence condition, aligned with the outcomes we hope to achieve. We explain how we propose to adapt these principles with respect to non-households.

### Principles based licence condition

The proposed new condition is drafted as principles. This is our preferred approach over more detailed and prescriptive requirements. Principles provide for a shorter and simpler licence and enable companies to innovate, tailor their approaches to deliver great customer service in their local areas and future proof the licence against unanticipated changes, such as changing technology and customer expectations. Through principles we can also put the ownership on companies, where appropriate, to work out what is best for their own customers within the higher-level framework. Principles allow flexibility of application to specific scenarios. This is important given that the range of customers' basic expectations is broad and may evolve over time.

Companies will need to consider what the principles mean for their customers, their people and their business and assess whether they are currently meeting these, where changes need to be made, and where there are areas requiring continuous improvements.

Feedback from companies and customer representatives is that they want us to set out our expectations regarding how companies should comply with the licence condition. However, we want to avoid being overly prescriptive to enable companies the freedom to respond to their customers changing expectations and find better ways of delivering services. We are therefore proposing to provide supporting guidance (see Chapter 6). We will take our guidance into account when considering compliance with the condition.

Using principles in the licence aligns with our recent alterations to company licences in relation to [Board Leadership and Governance](#), which are outcomes focused and which have driven a positive change within companies. It also reflects the approach taken by other regulators.

### Proposed wording of licence condition

Our proposed licence condition will apply to all household customers, for all water companies including new appointees.

As explained in Chapter 2, we are proposing that an adapted version of the licence condition apply to non-households that are not served by a retailer. In practice this means almost all non-household customers of Welsh companies and English new appointees. It would not apply to the majority of non-households in England, because they are served by a retailer.

Table 3 shows our proposed wording of the licence condition. This table includes reference to the outcomes described in Chapter 4 above, so that stakeholders can see the intended read-across from the principles to the outcomes. We do not propose that the outcomes should appear in the licence condition itself.

Below the table we explain how we propose the licence condition applies differently to English companies, Welsh companies and new appointees depending on whether non-households in their area are served by a retailer.

**Table 3: Proposed licence condition wording (blue cells are included for context, white cells are the actual draft proposed licence wording for Condition G)**

Corresponding outcome or guidance (not in licence condition)	Proposed licence condition wording	
	<b>G.1</b>	This Condition requires the Appointee to adopt high standards of customer service and support for the full diversity of customer needs. It requires the Appointee to deliver the six principles set out at paragraph G4 in relation to the Appointee's customers.  Nothing in this Condition has the effect of removing or affecting the duties of the Consumer Council for Water in relation to individual customer complaints.
	<b>G.2</b>	In this condition: an 'incident' means an event or situation which causes or may cause damage, disruption, distress or inconvenience to the Appointee's Customers in their capacity as such which is not trivial.
<b>Principles of customer care</b>	<b>G.3</b>	The Appointee must:
	<b>G.3.1</b>	develop policies and approaches to meet the principles for customer care set out in paragraph G4;
	<b>G.3.2</b>	implement those policies and approaches in a way that meets the principles for customer care set out in paragraph G4; and
	<b>G.3.3</b>	explain in a manner that is effective, accessible and clear how it is meeting the principles set out in paragraph G4;
<b>Outcomes</b>	<b>G.4</b>	The principles are:
<b>Customers are well informed</b>	<b>G4.1</b>	The Appointee is proactive in its communications so that customers of the Appointee receive the right information at the right time, including during incidents.
	<b>G4.2</b>	The Appointee makes it easy for customers of the Appointee to contact it and provides easy to access contact information.



<b>When something does go wrong affected customers have confidence their company will put it right</b>	<b>G4.3</b>	The Appointee provides appropriate support for the Appointee's customers when things go wrong and helps to put things right.
	<b>G4.4</b>	The Appointee learns from its own past experiences, and share these with other sector players, it also learns from others experiences and demonstrates continual improvement to prevent foreseeable customer harm to the Appointee's customers.
<b>The full diversity of customers needs are identified, understood and met by companies in the services and extra help they provide</b>	<b>G4.5</b>	The Appointee understands the needs of customers of the Appointee and provides appropriate support, including appropriate support for customers in vulnerable circumstances, and including during and following incidents.
	<b>G4.6</b>	As part of meeting principle 4.5 above, the Appointee provides support for customers of the Appointee who are struggling to pay, and for customers in debt.
<b>Guidance</b>	<b>G5</b>	Ofwat may issue and revise guidance in relation to paragraphs G3 and/or G4. Guidance issued by Ofwat under this condition will include an expectation that the Appointee consult the Consumer Council for Water and take its representations into account before making or revising any policies or processes which relate to some or all of the matters specified within the principles or that guidance.
<b>Classes of customer – this condition applies to Welsh companies and new appointees only</b>	<b>G6</b>	In relation to the Appointee's customers acting in their capacity as occupants of Household Premises, the relevant principles are those at G4.1-G4.6
		In relation to all other customers of the Appointee, the relevant principles are those at G4.1-4.5

The licence condition, as drafted, would not apply to those non-household customers that are supplied by a business retailer, because they are excluded by the defined terms "the Appointee's customers" and "customers of the Appointee".

We propose that the whole of the licence condition apply to non-households not served by a business retailer with the exception of sub-condition G4.6. We propose that this sub-condition, relating to those customers who are struggling to pay, and for those in debt, is not applied for non-households. This reflects the different type of support which we think is appropriate and mirrors the protections which apply in the business retail market in England, where there is no requirement on business retailers to provide support for non-household customers in debt.

In contrast, we are proposing that sub-condition G4.5, relating to customers in vulnerable circumstances, does include non-households. We are taking this approach because we think that some small non-households may have specific needs, for example if the owner has a disability, and that some non-households, such as hospitals and care homes, are serving vulnerable communities. We are carrying out a review of the Customer Protection Code of Practice in the Business Retail market this year, and as part of this will also be considering how vulnerability is considered within the Code of Practice.

### Consultation questions

2. Do you have any suggested changes to the proposed wording of the principles to meet our specified outcomes for households?
3. Do you agree with our proposed approach to exclude non-households from the condition relating to customers struggling to pay or in debt, consistent with corresponding non-households served by a retailer?
4. Do you agree with our proposed approach that the remainder of the licence condition apply to non-household customers without a retailer?

## 6. Guidance

In this section we propose the role of guidance in setting expectations and clarity to companies in relation to the licence principles, including the implications for CCW.

### The role of guidance

While the draft licence condition sets out principles for customer service and support, we propose in some areas to provide supplementary guidance to provide examples and expectations of how companies can meet the principles. We will enforce the principles with reference to this guidance, that is we will take into account how a company has considered our guidance in its activities when considering compliance with the condition.

The approach of having principles supported by guidance allows us to amend our guidance over time as we see changes in customer and company behaviours and technology, without needing to change the licence itself, which is time and cost intensive. Any material amendments to guidance would follow an appropriate process, including consultation.

Regulators in other sectors use supplementary guidance to give an indication of how compliance with high-level regulatory requirements can be achieved. This type of guidance allows a regulator to set out its expectations while still allowing for flexibility. For example: the process of revising and updating guidance is typically easier than changing the detail of a licence condition itself. This means that regulators can respond to emerging challenges and issues without having to redraw the established regulatory regime.

Supplementary guidance can also encourage companies to take an outcome-focused approach to compliance. Guidance can be designed in such a way as to set out an expectation that companies either comply closely with aspects of it; or explain how an alternative approach they have taken will deliver that aspect of the overall licence requirement in a better way. This can help to promote innovation while also keeping customers protected. At the same time, there may be areas where more specific guidance is appropriate to ensure customers are protected.

### Our proposed approach

We will seek to keep guidance relevant and appropriate, whilst also providing clarity to companies on what is expected of them. We will carry out appropriate consultation on any changes to and / or introduction of new guidance, which will provide opportunities for stakeholders to comment. In some instances when we issue guidance, we will provide

examples of good and poor practice in relation to the licence principles in order to provide clarity on our expectations.

We are mindful that guidance and expectations we set should be proportionate, particularly in relation to new appointees.

As noted throughout this document, over recent years Ofwat has issued non-binding guidance and policy reports (see Table 5) that make clear our overall expectations for how companies should be acting in the interests of customers. Once the new licence condition comes into force, we propose that companies should continue to take these steers into account as they consider how best to comply with the condition, until such time as we issue new formal guidance that supplants or updates these expectations. For example, our [Paying Fair Guidelines](#), issued in May 2022, provide further clarity as to how companies can comply with Principle 4.6 of the draft licence condition. In some instances, and as set out in Table 5, we may consider external guidance, for example from CCW.

We plan to publish a guidance register setting out the guidance we deem relevant to the licence condition. We plan to issue new guidance in areas where guidance does not currently exist or requires updating. For example, this year we will be consulting on revised vulnerability guidance. The issuing of further guidance will be considered on a prioritised basis, and we welcome views on where this is most needed in order to meet our desired outcomes.

Through our research, we tested the areas important to customers and where they would like to see detailed guidance (Table 4 below). Customers have told us that they would like to see consistent service standards in relation to some areas e.g. in relation to communications channels. We are considering where it may be appropriate to introduce minimum expectations within the guidance and are mindful of balancing this with the need for flexibility and ability to tailor company activities to their own area and customers.

**Table 4: What customers told us through our research – preference areas for detailed guidance**

Communications channels	Putting things right	Understanding customers' diverse needs
<p>Requirement for water companies to find out about customers' preferred channels and use these accordingly.</p> <p>Include a range of channels to suit different audiences including those who prefer/need a telephone service.</p>	<p>Requirement to respond quickly to incidents, resolve them as soon as possible, and communicate clearly and transparently throughout.</p> <p>Learning lessons from past experience and demonstrating improvements in customer service in future incidents.</p>	<p>Proactively finding out about customers' diverse needs, keeping this information up-to-date and using it when designing services.</p> <p>Dealing sensitively with customers in vulnerable circumstances including those struggling with their bills.</p>

## Role of CCW

The current Condition G within the licence requires companies to consult CCW before revising their core customer information. Given CCW's role in consumer representation, and their expertise in consumer matters for the sector, we think it is appropriate that guidance should require companies to consult CCW prior to finalising their policies or procedures on specified matters. We intend to be clear in guidance as to the matters in respect of which companies must consult CCW and recognise that there are a variety of customer matters which companies should discuss with CCW.

Table 5 below sets out guidance and policy, either owned by Ofwat and / or external sources, that we recognise are relevant to the scope of the draft licence condition and illustrate our expectations on how companies meet the principles in the first instance. We expect companies to take these documents into account in ensuring that they are complying with the licence condition once it has been introduced. However, it is important to note that these documents in their current forms refer to only a subset of the activities captured in the draft licence condition and companies should consider how they are meeting the licence principles in full when they are implemented.

**Table 5: Existing guidance relating to the draft licence principles**

Proposed licence wording		Previous / existing policy	Evidence / case studies (not exhaustive)	Guidance / recommendations
<b>G4.1</b>	The Appointee is proactive in its communications so that customers of the Appointee receive the right information at the right time, including during incidents.	<p><b>Ofwat</b>  <a href="#">Unlocking the value in customer data</a> (2017)</p> <p>Company licences – Condition G imposes some limited requirements relevant to customer information (proposal to revise and move this to guidance, and for companies to continue to meet the requirements set out in the current condition as part of meeting this principle in the new condition, as well as all other actions they consider necessary to meet it)</p> <p>C-MeX (prescribes communication channels that companies should use)</p>	<p><b>CCW</b>  <a href="#">Information on stream</a> (2015)</p>	
<b>G4.2</b>	The Appointee makes it easy for customers of the Appointee to contact it and provides easy to access contact information.			
<b>G4.3</b>	The Appointee provides appropriate support for the Appointee's customers when things go wrong and helps to put things right.		<p><b>Ofwat and CCW</b>  <a href="#">Putting things right: Household complaints practices in the England and Wales water industry</a> (2020)</p>	<p><b>Ofwat</b>  <a href="#">Customer experiences of sewer flooding – a joint report by CCW and Ofwat</a> (Ofwat, 2022)</p> <p><a href="#">Out in the Cold</a> (Ofwat, 2018)</p>
<b>G4.4</b>	The Appointee learns from its own past experiences, and share these with other sector players, it also learns from others experiences and demonstrates continual improvement to prevent foreseeable customer harm to the Appointee's customers.		<p><b>CCW</b>  <a href="#">Customers' experiences of water supply interruptions following the 'Beast from the East' in March 2018</a> (2018)</p> <p><a href="#">Household customer complaints report</a> (2022)</p>	<p><b>Ofwat and CCW</b>  <a href="#">Improving complaint processes in water – a follow up report</a> (2021)</p>

<b>G4.5</b>	The Appointee understands the needs of customers of the Appointee and provides appropriate support, including appropriate support for customers in vulnerable circumstances, and including during and following incidents.		<b>Ofwat</b> <a href="#">PSR guidelines</a> (Ofwat, 2013) <a href="#">Vulnerability focus report</a> (Ofwat, 2016) <a href="#">Listen, Care, Share: Water customers' experiences during Covid-19</a> (Ofwat, 2021) <a href="#">Paying Fair Guidelines</a> (Ofwat, 2022) <a href="#">Charges Scheme Rules from April 2023</a> (Ofwat, 2020)
<b>G4.6</b>	As part of meeting principle 4.5 above, the Appointee provides support for customers of the Appointee who are struggling to pay, and for customers in debt.		

### Consultation questions

5. Should any areas of customer service be prioritised in our development of the guidance? If so, which areas?
6. Which matters / company activities will benefit from having more detailed guidance, and which less?
7. Do you agree with our proposal to include reference to CCW as a consultee within guidance?

## 7. Monitoring and compliance

In this section we set out our approach to monitoring compliance, enforcement and implementation, which builds on discussions we have had with stakeholders in our development of the licence principles.

### Overview

The effectiveness of the new licence condition will rely on the belief and confidence in our ability to monitor compliance and take appropriate action where companies' fail to comply. Monitoring will provide insight into where additional focus and scrutiny is required and influence our approach to future guidance. We also want to monitor progress against our desired outcomes to understand the impact of this policy and to understand the sector's position as a whole in terms of customer service.

We aim to be proportionate in our monitoring and our requirements for reporting on compliance; we are mindful of the burden on companies and retail businesses. However, we do need to be able to quickly identify instances of customer harm, and where companies need to go further in delivering good customer service.

Where there are gaps in our understanding, we will look for proportionate ways to gain further understanding which may include deep dives and reviews into areas of concern, research and working closely and in partnership with stakeholders including CCW.

### **Box 3: Learning from other sectors – understanding companies performance against licence conditions**

#### **Market compliance reviews – Ofgem**

Ofgem has committed to compliance reviews as a core feature of their compliance approach. The market reviews are deep dives designed to ensure suppliers are fulfilling the requirements of the licence conditions. This work will allow Ofgem to determine if companies are fulfilling their licence conditions and to work with them to rectify deficiencies. Where they fail to do so, Ofgem will take action to enforce compliance, including issuing fines. To date these reviews have considered direct debits, customer service, support for vulnerable customers and support for customers with difficulty paying.



## Maturity assessments

A maturity model might be used to establish the maturity of a company's processes, teams, technologies or cultures. This information can inform a risk-based approach to monitoring, where areas that are more mature are subject to less detailed scrutiny. Examples of maturity models include us working with companies to co-create an asset management maturity assessment; the government (BEIS) using a maturity model to assess suppliers' installation of energy smart meters; and the Office of Rail and Road, in its regulation of rail safety, deploying its Risk Management Maturity Model (RM3).

## Existing insight

We use customer research – such as recent research on cost of living and sewage in homes – to better understand customers' experiences, and to test our own policies, as well as to challenge companies about their performance.

We also collect insights from companies directly through annual reporting and one-off information requests that enable us to monitor company performance, including in relation to affordability metrics. We can use other sources of insight, including customer contacts, C-MeX data, requests for information and open data. We are currently carrying out a review of water companies' progress on open data and expect companies to consider the findings from this open data review and our future decisions on this in relation to improving customer service.

There are external sources which can also provide insight into how a company, and / or the sector, is performing in relation to customer service which we will be considering as part of our approach to monitoring compliance with the licence and progress towards delivering our desired outcomes. These include: CCW assessments, such as their complaint or debt assessment, CCW's Water Mark [publication](#) and customer research; UKCSI; and, media reports,

## Self-reporting and annual reporting

In addition to our own active monitoring, we believe there are benefits in putting the onus on companies to set out how they are complying, particularly given that a principles-based approach is likely to result in many different actions by companies to meet the principles (and deliver the desired outcomes) which are difficult to monitor consistently.

We are proposing to include an obligation in the new licence condition to "explain in a manner that is effective, accessible and clear how [the company] is meeting the principles set out in paragraph G4".

As part of this requirement, we expect that companies monitor and ensure compliance with the new principles, in the context of the desired outcomes, through effective use of systems, processes and data. This will help to establish a culture shift across the companies to consider the customer experience in their decision making.

Companies should ensure that they are collecting and acting upon data to understand and evidence the service they provide to their customers, where improvements can be made, and how these will be addressed. They should also set out how they are embedding a customer focused culture, extending to third parties working on their behalf. We believe this activity will support the embedding of the licence condition throughout the company.

We are proposing to introduce an annual reporting requirement on companies through guidance, in which they will set out how they have complied, and any actions taken and future plans to improve their customer service in future. The reporting requirement may include identifying whether any groups of customers are / are more at risk of receiving poor service and associated plans to rectify this. Currently the draft licence condition contains only the general wording cited above. We propose that further detail as to how and when companies should report on compliance with the condition should be set out in supporting guidance.

We are currently reviewing companies' compliance with our Paying Fair guidelines. We will seek feedback on this process which we propose to use to inform our approach to monitoring compliance with the licence condition.

## Enforcement

The effectiveness of any licence condition also relies upon the relevant authority being able to track and enforce compliance. We will review how companies have met the principles by taking into account their reporting statement, past issues and best practice in the sector to assess whether companies' substantive behaviours in the round are delivering the objectives.

We will take into account evidence provided to us by third parties in the sector, particularly CCW, where they have identified companies failing to comply and therefore where improvements can be made.

Enforcement with respect to the licence condition will be consistent with our wider approach to enforcement. This follows our published guidance [Enforcement guidance consultation \(ofwat.gov.uk\)](https://www.ofwat.gov.uk/enforcement-guidance-consultation/); which sets out how we decide upon what regulatory action to take in relation

to suspected contraventions of company licences, including the process that we set out when we do take action. When we consider the appropriate action to take, we will consider, amongst other factors, the effect of the contravention or failure on: the company's customers; customers in general; and the regulatory framework

In many scenarios, more than one licence condition and/or statutory requirement could be relevant to an action or failure to act, and we may take action under more than one condition at the same time.

## Implementation

The proposed licence condition covers activities that companies should already be doing in order to provide good customer service. We are mindful that customers need to be protected when companies fail to do this, and introducing this new licence condition is an important tool to ensuring that.

We are keen to ensure that compliance with the new licence condition is required immediately from the point at which we introduce it. We plan to introduce the new licence condition in Quarter 3 2023/24 following the statutory processes in England and Wales.

### Consultation questions

8. How can we gather further insight on company performance in this area?
9. What are your views on annual reporting requirements to monitor compliance against the licence condition?
10. What are your views on our proposed timescales for implementation?

## 8. Changes to other areas of the licence

There are some areas of existing licences that cover similar territory to our proposals. In implementing a new condition, we will need to avoid duplication or overlap. This presents an opportunity for streamlining and simplification. We consider that there are two licence conditions which might be relevant and these are discussed below.

### Condition G

The current Condition G defines core customer information and the provision of it. This includes, for example, contact details, charges and descriptions of services. It also sets out a process for reviewing that information provision. In addition, it requires the Appointee to have a complaints handling procedure and to provide specified information with its bills. These issues are covered within principle numbers 4.1 and 4.2 in our proposal.

The existing provision is rule-based and the specific requirements could be moved into guidance. This is a better location for them in that they are easier to maintain and keep up to date. For example, the original wording of this condition was kept since privatisation until 2018, despite the fact it was drafted before the internet revolutionised information provision. The risk of the currently specified information not being provided is very low as it would be a clear breach of the principles. The process for reviewing the core information could be taken into guidance, specifically including a requirement to consult CCW as happens at present.

The existing condition also contains information provisions in respect of customers now served by the business retail market in England. However, we consider that the necessary protections are contained in the Customer Protection Code of Practice which regulates that market.

We propose to delete the current condition G and to cover the requirements it sets out as appropriate in guidance under the replacement condition.

### Condition J

Condition J requires the Appointee to report to us annually on levels of service, based on a 1989 letter from the Secretary of State. The information provided must be accompanied by information setting out the methods used for monitoring and reporting and a statement saying why any standards have not been met.

In practice we consider this overlaps with the provision in paragraph 3.3 of the draft condition, about explaining how the Appointee is meeting the principles. Condition J also

overlaps with our ability to require provision of information in condition M and the processes for setting, monitoring and assessing customer service levels in the price review, including the [Annual Performance Report process](#). Condition J contains a provision allowing us to collect information to justify a change to the [Guaranteed Standards Scheme](#) (GSS), but condition M allows us to collect this kind of information in any case. Given the level of duplication with other provisions in the licence, this condition is redundant.

We are considering whether to consult on deleting Condition J and to state monitoring and reporting needs in guidance.

### **Consultation questions**

11. What are your views on consequent changes to other conditions in licences and are there any other changes we should make?

## 9. Next steps

Following this consultation we will carry out a licence amendment consultation under sections 12A and 13 of the WIA 91 later in the year, complying with the two separate processes for England and Wales.

Over the coming months we will continue to raise awareness of the licence changes, including at conferences and at our annual meeting with water company non-executive directors in June, building on our engagement to date (including Customer Service Directors, Regulatory Directors and charities such as the Money and Mental Health Policy Institute).

We will continue to promote the draft licence condition amongst wider stakeholders to empower others, increasing pressure on company customer services teams to make the case for commitment to high quality customer service.

We plan to implement the new licence condition in Quarter 3 in 2023/24, in compliance with the timescales set out in the WIA 91.

## Annex 1

### Our regulatory tools

We already have incentives in place to influence company behaviour in relation to how they treat and deliver service for the end customer. This draft licence condition is an important addition to these tools (discussed below), acting not only as an enforcement tool/ penalty when a company systemically fails to deliver good customer service to its customers, but also acting as a deterrent to poor customer service practices. Through guidance, we also expect it to act as an incentive to companies to look at best practice and continuously challenge themselves on customer service standards to ensure compliance.

Since we launched our strategy we have published expectations in relation to the customer service companies provide. Notable among these are our [Paying Fair Guidelines](#), our joint [Complaints Practice Report with CCW](#), and the follow-up report [Improving complaint processes 2021](#) (see below). In all these documents, we have set out expectations on the improvements companies can make to raise the bar of service across the sector and protect the most vulnerable of their customers. We also have wider financial and non financial tools, including C-MeX and Priority Service Registers which we discuss below.

#### Paying fair

In 2022 we published our 'Paying fair guidelines' for water companies in supporting residential customers in England and Wales pay their bill, access help and repay debts. Our guidelines set out our minimum expectations for water companies on customer treatment, including customers experiencing debt enforcement action as well as some over-arching principles to guide each company's actions.

We are assessing how companies are applying our guidelines. We tasked companies with submitting compliance information to us in December 2022. Companies have now provided this information and we will report on it in spring.

#### Complaints report

An effective complaints process is extremely important in a monopoly sector where customers do not have the option to switch if they are unhappy with the services they receive.

In 2020 we published a joint review with CCW into complaints practices in the water sector. We set out clear areas for improvement that all involved in the sector needed to act on,

including the expectation for companies to have action plans for addressing the identified short comings.

A follow up review of these action plans in 2021 found encouraging examples of companies doing the right thing. However, there was evidence that, in some areas, the industry has much further to go in order to meet the high standards expected of providers of essential public services, in particular how insights from complaints are used to improve and tailor customer service, how good practice is shared, and improving the experience in order to empower customers, including those who are vulnerable.

Since this report, we have supported CCW's work to improve the mediation and adjudication stages of the complaints process. We are keen to see how these changes improve outcomes for complainants, and will continue to work with CCW to consider how the entire end-to-end complaints process can be as effective and less daunting to navigate for customers as possible.

## C-MeX

Customer service was one of the four key themes of our 2019 price review (PR19). We introduced the Customer Measure of Experience (C-MeX) which applies to the 17 largest water companies in England and Wales with effect from 1 April 2020. It does not apply to new appointees.

C-MeX is designed to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. It is based on customer surveys and is therefore most effective at measuring, and incentivising improvements in the experiences of average customers.

However, because C-MeX provides an insight into the experience of the average customer it is less effective at robustly measuring the experience of the worst served customers and those repeatedly failed by their companies. It therefore limits our ability to take actions against companies in relation to pools of customers who are consistently poorly served. We recognise that this is a gap in our current regulatory toolkit, which a customer focused licence condition would address.

We are in the process of reviewing C-Mex in preparation for the 2024 price review (PR24), to ensure it continues to influence sector performance in relation to customer service.

## Priority Services Registers

Ahead of our last price review, we published our [Vulnerability Focus report](#), which aimed to broaden the understanding of customer vulnerability in the water sector in England and Wales, and to stimulate interest and debate around the issue. This built on our existing



guidance to water companies on the essential elements of the policy and procedures we believe are required for water companies to meet the needs of consumers who are disabled, chronically sick or of pensionable age.

We set out our expectation for each company to maintain an accurate and up-to-date record (Priority Service Register) of any consumer who has expressed a need for specific help or service, even if they are not the bill payer. The register (PSR) should include details of the consumer's specific requirement in relation to water and sewerage services which companies have to take into account when the need arises so that those consumers are not disadvantaged when compared with other consumers.

From the Business Plans that companies submitted to us for PR19 purposes, we became aware of a wide variation between the way companies applied this guidance. The information did not give us sufficient confidence that companies had kept, or would keep, the PSR data up to date. In view of this, we introduced a reputational common performance commitment for the PSR which took effect from April 2020. This has not only provided an additional incentive for companies to focus more on their registers, but it has also led to a greater customer awareness of the existence of the registers which has resulted in increased number of customers going on the PSR.

One way that companies can better identify customers who need extra support and reduce the number of times those customers have to declare that need, is by establishing data sharing arrangements with other organisations. Water companies and energy network companies have been working for several years to establish PSR data sharing between their two industries. Now all water companies and energy network companies have PSR data sharing arrangements in place with their local counterparts, and further work is being undertaken to further refine and improve these arrangements where necessary.

**Ofwat (The Water Services Regulation Authority)  
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