

## Northumbrian Water response to Customer Focussed Licence Condition Consultation

We broadly support the proposals as set out by Ofwat.

We particularly welcome the scope clarification that *“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. The licence condition will not be a tool to enforce against individual customer incidents. These are handled through CCW’s complaints resolution powers.”*

Our only concern is over possible overlaps with existing regulatory mechanisms. There are several outcome delivery incentive mechanisms that also address customer service (such as C-MeX) and we encourage Ofwat to consider in each case whether these forms of redress for poor service are sufficient to provide incentives for poorly performing companies to improve.

We believe that it is also important to incentivise and reward good customer service, as would happen in a competitive market rather than just an asymmetric penalty regime. We believe that Ofwat should only refer to this licence condition in situations where the existing incentive mechanisms do not cover the service to customers or a broader systemic recurring issue needs addressing.

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

We support the outcomes as defined. We note that the examples relate to individual cases, which we assume are for illustrative purposes only as the licence condition talks about *“The licence condition will not be a tool to enforce against individual customer incidents. These are handled through CCW’s complaints resolution powers”*.

We agree that a principles-based approach allows for additional flexibility and also share others’ concerns about how companies can ensure that they are compliant with the licence condition. Our observation of the Paying Fair Guidelines referred to in the consultation is that these are very detailed and prescriptive and seem a little at odds with this principles-based approach and as historically these guidelines (previously the household debt code of practice) have tended to be updated infrequently leaving little room for innovation and evolving practices.

In the overview section it talks about instances where customers feel let down and gives an example of *“Companies failing to support and communicate with customers or manage complaints and compensation fairly when things go wrong”*. We are interested to understand how Ofwat views fair compensation alongside companies’ existing Guaranteed Standards of Service payments and the enhanced standards payments companies make, and once again this appears to refer to an individual case rather than a more systematic failing.

In summary, we’re supportive of a principles-based approach which allows flexibility, innovation and opportunity to drive best in class experiences.

### **2. Do you have any suggested changes to the proposed wording of the principles to meet our specified outcomes for households?**

No

### **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?**

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We agree that non households should be treated the same by their water company/retailer whether they are part of the market or not. A different approach between the two would undermine the principle that being part of a retail market should not make customers worse off.

### ***4. Do you agree with our proposed approach that the remainder of the licence condition apply to non-household customers without a retailer?***

We agree that all customers, whether household or non household should be covered by this licence condition or the equivalent retail market code of practice..

### ***5. Should any areas of customer service be prioritised in our development of the guidance? If so, which areas?***

The current incremental approach is the most appropriate. We support principles-based approach rather than prescription so that companies can innovate and drive up standards reflecting what their customers tell them matters most to them.

### ***6. Which matters / company activities will benefit from having more detailed guidance, and which less?***

We suggest that the guidance should focus on areas that are not covered by existing measures and incentives such as C-MeX. The focus should be on companies having appropriate policies and processes, with customer systems that can handle the customer service impacts of large scale incidents for example.

All guidance should be that, and so allow room for innovation and flexibility to reflect what customers tell companies matters most to them.

### ***7. Do you agree with our proposal to include reference to CCW as a consultee within guidance?***

We agree that CCW should be a consultee.

### ***8. How can we gather further insight on company performance in this area?***

Ofwat could carry out benchmarking exercises into areas where any concerns might have been highlighted or request more details for particular elements of guidance compliance as spotlight areas. Poor service will be felt most by customers and their representatives so seeking views directly from these groups will always be the best way to understand their experience and what matters most to them.

We are aware that Ofwat and CCW are looking to do research into a cross-section of incidents and their handling and this could be a feed-in here too, though the context would be important as research would look at certain incidents rather than compare performance during incidents for example.

### ***9. What are your views on annual reporting requirements to monitor compliance against the licence condition?***

We support the requirement for companies to make statements in their Annual Performance Report on how they have complied with the licence condition and associated guidance.

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We agree that the guidance could require companies to report on actions taken during the year, including identifying whether any groups of customers are / are more at risk of receiving poor service and associated plans to rectify this.

The associated guidance documents are very detailed, for example the paying fair guidance details 144 separate requirements alone, reporting against each element of the guidance individually could result in a very long and detailed addition to the Annual Performance Report rather than focussing on what is new or changed during the reporting the year and a statement of broader compliance as well as highlighting any areas where companies have deviated from the guidance. We suggest that a checklist in the guidance would be helpful for companies to consider and create a degree of consistency and compatibility.

We would not support a metric based approach at this stage, as there is no clear metric that would cover the broad issues raised in the consultation. The C-MeX model is the best metric based model of customer service that has emerged to date and should be retained. We are aware that changes to this metric are being considered ahead of PR24 and strongly support that the changes ensure it is easy-to-understand, straightforward and proportionate to administer and that it continues to be reflective of the whole spectrum of customers whether they have recently made contact or not as this broadening of scope for C-MeX is wholly positive in ensuring companies strive for improved performance and reputation.

### ***10. What are your views on our proposed timescales for implementation?***

The proposal for implementation in late 2023 seems reasonable, provided there are no material issues raised in the responses.

We think Ofwat should allow itself a little more time to complete their current consultation on updating the vulnerability guidance and consider how it will assess company's compliance with guidelines such as paying fair as the recent assessments have led to some unreliable results. These two pieces of guidance are key in the interpretation of company's compliance with the new customer focussed licence condition and highlight the difficulties that companies may have in understanding whether they are meeting the requirements under the new licence condition.

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

We support the deletion of Condition G and J from the licence. We believe that the use of short principles in the licence linked to more detailed flexible guidance that can be updated as required will ensure the licence condition remains a relevant and practical focus for the companies.

In addition, we would like to highlight that principles G4.5 and G4.6 of the new licence condition require companies to provide adequate support for customers in vulnerable circumstances, including those struggling to pay. We would like to highlight that, to varying degrees, the ability of companies to fulfil this requirement, now and in the future, is constrained by the current interpretation of what may constitute undue discrimination in charging under Condition E of the licences.

We would welcome assurance from Ofwat that in line with the principles based approach, and its objective of ensuring companies adequately support financially vulnerable customers, it will apply greater flexibility in its future interpretation of licence condition E, broadening what it deems to be due discrimination accordingly. An updated perspective taking account of the

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new duty and wider economic circumstances would empower companies to effectively meet customer needs and to fully discharge their responsibilities under the new licence condition.

**Northumbrian Water**

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