

October 2023

**Responses and conclusions to
'Putting water customers first: A
consultation on introducing a
customer-focused condition into
the licences of all water
companies in England and Wales'**

About this document

In May 2023, we published a consultation document: [Putting water customers first – a consultation on introducing a customer-focused condition into the licences of all water companies in England and Wales](#). It laid out our proposal to modify water company Instruments of Appointment (referred to as Licence Conditions) 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.

This document sets out a summary of responses to our consultation document. We set out how we have considered those responses and our approach going forward. We then set out the next steps, including undertaking a statutory consultation to modify the licence condition.

This document should be read alongside our statutory consultation to implement these changes by modifying licence condition G and remove licence condition J: ['Consultation under sections 13 and 12A of the Water Industry Act 1991 on proposed licence modifications to introduce customer-focused principles for all water companies'](#).

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1. Our May 2023 consultation

In May we consulted on introducing a new customer focused condition into water companies' licences. We proposed to complement the principles-based licence condition with more detailed guidance. We proposed that the new draft principles and guidance would replace the current Licence Condition G, which primarily relates to publishing core customer information.

We proposed the new licence condition would apply to all water companies holding an Instrument of Appointment for an appointed area as a supplier of water and/or wastewater services. This includes new appointees, also known in the sector as NAVs, which are small water companies that typically supply some new housing developments. We further proposed that it would apply to household customers in England and Wales, and in a more restricted sense to non-household customers where they are not supplied by a Retailer: in practice this means to all but the largest business customers of Wales, and some customers of NAVs who have not exited the market.

We made it clear that the new licence condition would not be a tool to enforce against individual customer incidents as these would continue to be handled by the complaints resolution powers of the Consumer Council for Water (CCW).

2. Summary of responses

We received responses from 26 organisations. We also received a small number of responses from individuals which related to water company performance rather than this consultation. Where we considered the responses to be complaints, we have dealt with them through our procedure for complaints.

We provide in the table below the list of organisations that responded to our consultation.

Table 1 Respondents to our March consultation

| Water companies, including retailers | | | | | |
|--|------------------------------|-------------------------|---------------------------|-------------------------------|------------------------------------|
| Anglian Water | Dŵr Cymru | Hafren Dyfrdwy | Northumbrian Water | Severn Trent Water | South West Water/ Bristol Water |
| Southern Water | Thames Water | United Utilities | Wessex Water | Yorkshire Water | Affinity Water |
| Portsmouth Water | Sutton and East Surrey Water | South East Water | South Staffordshire Water | ESP Water Limited | Water Plus |
| Leep Utilities | | | | | |
| Other organisations | | | | | |
| Consumer Council for Water | Money Advice | Money and Mental Health | Plain Numbers | Institute of Customer Service | Independent Network Association |
| Worshipful Company of Water Conservators | | | | | |

In the rest of this chapter, we summarise the consultation responses, grouping them into broad themes according to our consultation questions. For each question, we provide a summary of what we said in the consultation document, stakeholders' answers, and our high-level response to those answers explaining how we intend to proceed.

2.1 Responses and conclusions to Question 1

Do you have any comments on the outcomes or examples?

What we said

We worked through Autumn 2022 with water companies and stakeholders to develop the following outcomes that we expect companies to achieve for their customers:

- 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 are identified, understood and met by companies in the services and extra help they provide

These outcomes form the basis of our proposed new licence condition. They are what customers should expect in terms of customer service from their water companies.

We explained that we did not plan to include these outcomes within the new licence condition itself. However, we intended them to set the context within which the new licence condition will be practically applied and enforced.

Respondents' view

Overall, stakeholders found these outcomes to be relevant and appropriate.

Some water companies disagreed with our decision not to include the outcomes as part of the new licence condition itself. Other water companies pointed that some of the examples of good and bad practice that we set out against each outcome were related to individual customer incidents (whereas the licence condition would not be a tool to enforce against individual customer incidents).

Some water companies referred to the possible interaction of the principle 'to put things right when things go wrong' with other existing mechanisms to incentivise customer service performance. They suggested that these could be addressed through either a review and reform of those mechanisms themselves or a rewording of the new licence condition.

One water company noted that some of the measures we set out are outputs, not outcomes; for example, "customers are well informed," is an output within an overall outcome of "satisfied customers."

Some water companies suggested that additions or changes should be made to specific wording in the new licence condition to clarify our expectation of compliance. Another water

company asked us to clarify the triggers that we will use to identify challenges under the new licence condition.

A charity asked for wording of the principle to be strengthened to safeguard against customer distress for example when water companies resort to third parties or high court enforcement to collect household debt.

Our response

We note the views of stakeholders on our proposed outcomes.

The examples we provided against each outcome were for illustrative purposes. We plan to retain our initial position not to include these outcomes within the new licence condition itself. The outcomes form part of the context within which the new licence condition is intended to operate. These outcomes are also applicable to our wider customer policy work, and therefore have links with other areas of Ofwat's regulatory toolkit, and contribute to our wider strategy.

We would evaluate the impact of the new licence condition with reference to these outcomes, and they will be a useful guide to understand where improvement is required.

2.2 Responses and conclusions to Question 2

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

What we said

We have drafted the new licence condition using a principles-based approach and included proposed principles within our May 2023 consultation. We believe this will allow water companies the freedom to respond to the changing expectations of their customers and find better ways to deliver services. Water companies will need to consider what the principles mean for their customers, their employees and their business. They will need to assess regularly whether they are currently meeting those principles and take steps to make necessary changes to ensure continuous improvements in the customer service they provide to their customers.

Respondents' view

Feedback from water companies to our May 2023 consultation was, in general, supportive of the introduction of a principles-based licence condition.

Two water companies raised a concern about the high-level nature of the principles as currently drafted and noted that this may require sufficient detail to be provided in guidance to make it easier for companies to comply.

There was a mix of views on whether changes to the draft wording were needed. While some respondents agreed with our proposed wording and did not believe any changes to it were necessary, other respondents thought differently. One water company pointed out the need for us to offer more clarity and remove ambiguity around some words and phrases.

Some water companies suggested additions and amendments to the wording of specific principles. Suggested edits to the drafting included:

- replacing "right info at right time" with "providing appropriate information within a reasonable timeframe";
- replacing "when things go wrong" with "incident";
- expanding principles G4.1 and G4.2 to "provide appropriate information within a reasonable timeframe";
- providing a definition for "easy";
- clarifying under principle G4.3 how the requirement for companies to put things right when they go wrong will consider instances outside of the company's control;
- clarifying under principle G4.4 the meaning of 'others' when we require companies to share learning with other sector players, and to learn from the experiences of others.
- One respondent pointed out what it considers to be a potential contradiction between the new licence condition requirement to share learning with other water companies and our current use of comparative assessment which encourages water companies to compete against each other and may ultimately restrict sharing.

A NAV asked for the principles to explicitly consider NAVs as customers of the relevant water companies. In this way, the water companies will act within the principles when they deal with NAVs which would in turn allow the NAVs to deliver the good outcomes envisaged in the proposed licence condition to their household customers.

A charity asked us to include a principle which both encourages water companies to build trust with their customers and gives Ofwat the ability to monitor the ensuing trust levels and benchmark these against those within other utility and regulated sectors.

A Retailer noted that the envisaged outcomes were focused mainly on household customers. They asked us to consider including general requirements in the new licence condition that would compel Wholesalers to address the concerns of Retailers. Some of the concerns they mentioned included: effective customer query and complaint resolution; involvement in alternative dispute resolution schemes; alignment with any changes or additional requirements within the non-household market; and resolution of long-term disputes.

One respondent suggested that a review of the wording could be done during the implementation stage.

Our response

On specific drafting changes, we consider that some suggestions will improve the clarity of the principles and / or are helpful in achieving our outcomes. Where this is the case, we have amended the drafting accordingly, as set out in our statutory consultation. Where we consider that suggested changes will weaken the language of the new licence condition and subsequently make the new licence difficult to enforce against, we have retained our original drafting.

Details on where we have made changes are summarised below and in Annex 1.

Changes to formatting and numbering: we have made some changes to the ordering and numbering of the paragraphs, and inserted headings where appropriate. These changes do not affect the substantive requirements set out in the condition.

G1.2 and G1.3: we have defined what we mean by customers in the context of the new licence condition, rather than repeatedly using the defined term from Licence Condition A throughout. This has enabled us to use more natural sounding language in the sub-paragraphs setting out the principles.

G3.4 - Sharing learnings: where we previously made reference to sharing learnings with 'other sectors players' we have amended this to 'relevant stakeholders'. This will take account of instances where learning can be generated from outside of the sector and which may be of benefit to this sector and its customers.

G3.5 – 'Appropriate support': where we referenced providing 'appropriate support' to customers, one respondent suggested we expand this to include 'appropriate, reasonable and proportionate support'. However, we have since published our draft vulnerability guidance which provides detail on what is expected in relation to appropriate support and therefore have maintained our original drafting in this area.

Removal of G5 (relating to Ofwat issuing guidance): in our May 2023 consultation we included a clause which set out our intention to issue guidance in relation to the new licence condition. We have now removed this clause. It is still our intention to issue guidance, but as the guidance will not itself be included within the new licence condition, it served no legal purpose to include reference to it within the new licence condition. The previous clause also made reference to us including an expectation within guidance that CCW should be consulted when water companies make changes to policies and procedures. We have moved this into Clause G2.1. We will include the areas on which we expect CCW to be consulted within our Core Customer Information guidance (to be published in Autumn 2023).

We have not made all the suggested additions because in the round we consider that introducing greater detail into the new licence condition will restrict water companies from responding to the needs of their unique and changing customer base, and risk limiting the

potential benefits of the new licence condition to customers. However, we are considering how we can increase clarity and detail to support water companies with compliance within the guidance. We recognise that underpinning guidance will be able to provide greater clarity to water companies, and have issued our consultation on improving service to customers who need extra help to provide clarity in the areas of greatest potential customer harm.

Specifically, we consider that:

- expanding principles G4.1 and G4.2 to "provide appropriate information within a reasonable timeframe" will weaken the language of the principle and restrict the potential outcomes for customers and so have decided to maintain these principles as per our drafting.
- replacing "when things go wrong" with "incident" will narrow the scope of the condition too much as to reduce its effectiveness for the intended purpose.

We have considered the relationship between wholesalers and retailers, and wholesalers and NAVs. We do not consider that this licence condition is the appropriate mechanism for improving the interaction between wholesalers and retailers / NAVs, as the principles are designed specifically with household customers in mind. We have noted these comments and will consider within our wider regulation.

We acknowledge concerns about a potential conflict between the new licence condition requirement to share learning and other regulatory tools designed to create competition. However, we are of the view that when things go wrong, such as during and after an incident, it is necessary for water companies to share learnings and best practice in order to raise the standard of customer service across the industry. We do not consider that the new licence condition requirement referred to will have a negative effect on the impacts of other regulatory tools, such as C-MeX. Rather, we believe that it will provide an additional incentive for water companies to continually improve in this area, and presents opportunity for improvements in C-MeX scores.

We acknowledge that customer trust is an important element of improving customer service. We believe this will be better considered as part of the monitoring of the sector to understand how water companies are responding to the new licence condition. We will consider this as we develop our monitoring approach.

In relation to reviewing wording during implementation, this is not feasible because of the statutory licence modification process we are required to follow, in which we must formally consult on the proposed wording under sections 12A and 13 of the Water Industry Act 1991 (WIA91).

2.3 Responses and conclusions to Questions 3 and 4

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?

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

What we said

We proposed that with the exception of condition G4.6, which relates to customers who are struggling to pay and customers in debt, the whole of the new licence condition apply to non-household customers that are not supplied by a Retailer. We explained that this proposal reflected 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 Retailers to provide support for non-household customers in debt. Non-household customers supplied by a Retailer will not be covered by this licence condition.

We proposed that condition G4.5, relating to customers who need extra help, does include non-household customers in Wales, as these customers are served directly by the water company rather than a Retailer. Some small non-household customers may have specific needs, for example if the owner has a disability, and that some non-household customers, such as hospitals and care homes, are serving vulnerable communities.

Respondents' view

In recognition that there is no retail market for non-households in Wales, there was a general consensus among the other respondents that our proposed approach was a sensible one, with the exception of one charity that expressed concerns about SMEs that are in financial distress. All retailers' responses broadly supported our proposal in this area.

Water companies that agreed with our proposal believed among other things, that:

- water companies' functions do not include supporting unviable or unsustainable commercial businesses;
- for the most part, Retailer's customers are not the customers of the relevant Wholesaler (with reference to the English market);
- the appropriate place for intervention to protect non-household customers is the retail market (with reference to the English market); and
- it maintains the expectation that being part of a retail market should not make customers worse-off – non-household customers should not be treated differently on the basis of whether they are part of the retail market or not.

CCW opined that affordability support for household customers should be considered differently to that for business customers because the latter incur water service costs, at least primarily, in the operation of a business or a service rather than in meeting the essential living needs of a household customer. They asked us to consider whether a separate licence condition is appropriate for micro and small businesses in England that face similar issues to the ones household customers face, taking into account the findings of the review of the business customer protection code of practice.

More general comments included:

- one water company noting that, as currently drafted, condition G4.6 which applies to "customers of the Appointee" is equally applicable to non-household customers without a Retailer;
- another water company requesting us to confirm either in G6, or unambiguously in the subsequent decision document, that we do not intend for conditions G4.1 to G4.5 or G4.6 to apply to customers receiving new connections services from water companies. This is because those customers are not considered as "customers of the Appointee" where that term is used in companies' licences.
- A retailer asked us to develop a set of requirements for Wholesalers that will compel them to place all customers at the heart of their decision making, and ensure that they support the competitive business retail market to deliver improved customer outcomes;
- A company asked for clarity on how customers in the Isle of Scilly would be considered.

A couple of responses queried whether G4.5 relating to non financial vulnerability was applicable to non-households who are served by a Retailer.

Our response

We are proposing that the new licence condition relates to household customers in England and Wales and non-household customers who are not supplied by a retailer: in practice this means all but the largest non-household customers of Welsh water companies, and non-household customers of some NAVs in both England and Wales. We are retaining our original position in relation to this policy.

In the English retail market we are aware that, within the Code of Practice, Retailers are required to offer payment plans for up to 12 months to non-household customers that are struggling to pay. We have considered whether this new licence condition for water companies operating in Wales should be extended for non-household customers in Wales to include support for those small businesses who are struggling to pay.

However, given this is a condition that is primarily focused on improving outcomes for household customers to support our overarching aim to "to see high standards of customer service and support for the full diversity of customer needs across the water sector" we don't believe that this is the appropriate vehicle to support non household customers who are

struggling to pay. Similarly, we do not intend it to cover the relationship between Wholesalers and Retailers.

We are currently carrying out a review of the Code of Practice for Retailers in England. We will await the findings and conclusions of this review to understand whether further action should be taken in this policy space for SMEs in Wales. This could take the form of underpinning guidance.

2.4 Responses and conclusions to Questions 5 and 6

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

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

What we said

We proposed that in some areas we will provide supplementary guidance to provide examples and expectations of how water companies can meet the principles. We mentioned that we will consider compliance with the licence condition with reference to this guidance. We will do this by assessing how a water company had taken account of the guidance in its activities to comply with this new licence condition.

We will seek to keep guidance relevant and appropriate, whilst also providing clarity to water 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.

Over recent years, we have issued non-binding guidance and policy reports that make clear our overall expectations for how water companies should be acting in the interests of customers. Should we decide to implement the new licence condition, we propose that water companies should continue to take these steers into account as they consider how best to comply with it, until such time as we issue new guidance that supplants or updates those expectations.

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.

Respondents' view

In terms of what areas of customer service should be prioritised in guidance, there were varied suggestions, including:

- developing expectations around service delivery to customers who need extra help because there is no longer a reputational performance commitment for the PSR.
- guidance in relation to responding to incidents.
- vulnerability guidance and best practice relating to responding to the full diversity of customer needs.
- developing guidance in relation to customer communications.
- developing guidance in areas where no guidance currently exists so as to provide more clarity for water companies to inform their policies and processes for meeting the requirements of the new licence condition.

Responses were also varied in terms of which matters or water company activities would benefit from having more detailed guidance. Some of the matters and activities raised include:

- the need for a well-considered enforcement policy to address legitimate divergence of views on the application of principles.
- a focus on areas that are not covered by existing measures and incentives such as C-MeX, including water companies having appropriate policies and processes in place to handle, for example, customer service impacts of large-scale incidents.
- further guidance around the appropriate levels of communication.
- priority matters that require national consistency like debt support or vulnerability should be a focus so that the industry can agree best practice.
- Ofwat commitment to periodically reviewing the current and any new guidance, which should give water companies more certainty of when changes to the guidance may take place.
- some respondents made reference to the GSS. One water company suggested that it was an omission on our part not to include it as a piece of relevant guidance. A Retailer said it would welcome consistency and transparency in GSS schemes for England and Wales.
- One water company thought that there was enough guidance already and that adding some more could run the risk of causing confusion.
- One water company raised potential cost implications relating to the requirements in the proposed licence to support vulnerable customers.

One company requested clarity in guidance as to whether Ofwat expects minimum standards to be met, or aspiration best practice to be aimed for.

A NAV welcomed the proposal for specific and proportionate NAV guidance, recognising the scale and varied geographical locations of NAVs. It noted the importance of incumbent companies providing timely communications to their NAVs to enable NAVs to communicate

effectively with their own customers, understand restoration times and provide the help and support to their customers who needed extra help as envisaged by the new licence condition.

Our response

Many of the respondents identified the need for updated guidance on vulnerability, to support principles G4.5 and G4.6. We have since issued our draft vulnerability guidance, [Service for All](#), for consultation, and plan to publish our final guidance in Autumn 2023.

One water company requested further guidance on how water companies meet principles G4.3 and G4.4 relating to the management of incidents and events. We are currently conducting joint research with CCW on customers experiences during incidents, which will inform future guidance in this area. This programme of work is due to complete in 2024, though we will be publishing findings along the way as each stage of work is finished.

We are also publishing guidance relating to Core Customer Information which will replace the existing Condition G requirements. We intend to consult this in Autumn 2023. In relation to GSS, we are supporting CCW in its [Call for Evidence](#) to understand whether GSS in its current form is adequate.

Many respondents have requested a guidance register, which clearly sets out the guidance which we see as relevant to the new licence condition. We are committed to publishing and maintaining a record of all relevant guidance, and plans for developing future guidance to address. This also includes supporting external information which water companies may find useful when considering the new licence condition.

Some respondents have suggested that we link our guidance to third-party guidance where relevant. We have sought to do this in relation to CCW and will continue to monitor where there may be other instances of guidance that we consider to be helpful in terms of providing clarity in relation to the new customer licence condition.

In relation to cost implications, the proposed licence condition builds on previous customer policy introduced by Ofwat, including within PR14 and PR19. We do not anticipate significant cost increases as much of the scope of the licence focuses on improving current business practices. Nevertheless, we would expect any anticipated material cost increases to be explained and evidenced in PR24 business plans.

2.5 Responses and conclusions to Question 7

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

What we said

The current Licence Condition G 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 water 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 water companies must consult CCW and recognise that there are a variety of customer matters which water companies should discuss with CCW.

Respondents' view

All the respondents agreed and felt that it was important for us to reference CCW as a consultee.

CCW welcomed the proposal, including reference to water companies needing to consult with CCW in finalising their policies or procedures on specified matters. This, in CCW's opinion, builds on the role CCW already undertake under current Licence Condition G. CCW said it will work with Ofwat to ensure this proposal is reflected in the guidance documents that are developed.

Some water companies pointed out that the nature and speed at which they make process and procedural changes could slow down if they had to consult CCW on all of these, possibly causing customer detriment. It was unclear to them whether the capacity of CCW to deal with the potential increase in volume of consultations arising from water company led changes in response to engagement with customers had been considered. One suggestion was to consult CCW on material changes to customer matters / policies.

One water company asked for the actual role of CCW to be made clearer. They asked that if it was our intention to require water companies to consult CCW, then this should be set out in the new licence condition following the proper statutory process under the WIA91. It did not consider it appropriate for a requirement to be contained in guidance as it should not be used to implement licence conditions.

One water company flagged the need for a carve-out from the requirement for consultation where a water company considers that an immediate change is necessary or expedient for the purposes of delivering good customer service. After the event, CCW could be informed of such changes and could then have an opportunity to comment upon them, including whether it considered the immediacy of the change was necessary.

Our response

It is important that CCW remain a consultee of water companies' in relation to changes they make to customer related policies and procedures, and that this requirement is set out in the licence itself. However, we believe that this should be proportionate and targeted. We have therefore included in paragraph G2.1 that CCW should be consulted "where appropriate". This also recognises that it may not be necessary or proportionate to consult CCW in every case, and that the areas on which CCW should be consulted may change over time, which can be easily reflected in updated guidance.

We will set out in our Core Customer Information guidance the areas on which we expect CCW to be consulted. These areas may include:

- Affordability & Vulnerability;
- Creation of and subsequent significant changes to customer facing information on what help customers should expect in incidents;
- Water company Business Plans as part of the Price Review;
- Water companies' approach to having a customer-centric culture;
- Complaints code of practice;
- Information that describes CCW on bills and on their website.

We will be consulting on this in our Core Customer Information guidance document in Autumn 2023.

2.6 Responses and conclusions to Questions 8 and 9

How can we gather further insight on company performance in this area?

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

What we said

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.

It is possible to use a maturity model to establish the maturity of a water 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.

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 water companies about their performance. We also collect insights from water companies directly through annual reporting and one-off information requests that enable us to monitor their performance, including in relation to affordability metrics. We will be considering external sources which can also provide insight into how a water company, and / or the sector, is performing in relation to customer service.

We believe there are benefits in putting the onus on water companies to set out how they are complying, particularly given that a principles-based approach is likely to result in many different actions by water companies to meet the principles (and deliver the desired outcomes) which would be 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 water company] is meeting the principles set out in paragraph G4." As part of this annual self-reporting requirement, we expect water companies to monitor and ensure compliance with the new principles, in the context of the desired outcomes, through effective use of systems, processes and data.

Respondents' view

Stakeholders provided a range of suggestions on how we can gain insight on compliance and performance in relation to customer service, including through existing channels, and also introducing new sources of information.

One water company suggested that sharing learnings across other sectors, in particular Ofgem, would be key here. Linked to this, one water company was interested in knowing how we will combine the intelligence from all the different sources to form a coherent view of how a water company was serving its customers and complied with the new licence condition as proposed.

One charity recommended that customer service and satisfaction levels of water companies should be gathered twice a year via the UK Customer Satisfaction Index (UKCSI), rather than on an annual basis. Another charity suggested that there should be a requirement to identify whether any groups of customers are experiencing poorer outcomes.

One water company suggested that we could carry out benchmarking exercises into areas where concerns might have been highlighted or request more details for particular elements of guidance compliance as spotlight areas, and maturity models can be valuable insight to inform this. Poor service will be felt most by customers and their representatives so seeking views directly from them will always be the best way to understand their experience and what matters most to them.

On the question of annual reporting, a vast majority of respondents were in favour of annual reporting, however they thought that we should provide clarity and further details on reporting requirements. Some suggestions included:

- provision of checklist in guidance to promote consistency and compatibility of reporting;
- a requirement for reporting to be signed off by Boards following extensive third-party assurance;
- a statement of broader intent and highlighting areas of deviation rather than a detailed measure against all elements of guidance;
- broader monitoring of customer themes would be more effective;
- at the early stages, water companies should be allowed to present evidence and insight they think are necessary. Ofwat can over time use best practice to provide more prescriptive guidance;
- requirements for self-reporting and ad-hoc requests for information need to be proportionate.

One water company questioned the impact of increasing regulatory burden arising from the increased reporting requirements on water companies. They asked us to undertake a review of all current reporting requirements (including those imposed by CCW) before developing any new reporting requirements in relation to this proposed new licence condition.

Our responses

We agree that valuable insight can be gained from existing channels, including C-MeX qualitative data. There is not one single data source that will indicate whether a water company is complying with the new licence condition, rather we will draw insight from a range of sources to help us assess water company and sector performance. In the first instance, we will take a proportionate and risk-based approach to monitoring – utilising existing sources of insight, coupled with the annual self-reporting requirement in the licence.

We intend to provide further guidance on the annual self-reporting requirement in the licence. From this we will take a more targeted monitoring for poorer performing water companies. This may take the form of 'deep dives' and / or research where we have evidence on potential customer detriment.

We recognise that CCW collect and analyse customer data on complaints and vulnerability. We are committed to working with CCW to understand water company compliance with the new licence condition and sector performance in relation to customer service.

We will keep our monitoring approach under review and look for opportunities to promote proportionality and work collectively with partners and wider stakeholders to minimise the burden on business. For example, in 2023 we carried out an assessment of how water

companies considered our Paying Fair guidelines. We are reviewing this process, and looking at what lessons can be learnt to inform our wider monitoring approach.

2.7 Responses and conclusions to Question 10

What are your views on our proposed timescales for implementation?

What we said

We plan to introduce the new licence condition in Quarter 3 2023/24 following the completion of the statutory processes in England and Wales.

Respondents' view

Almost all the water companies generally had reservations about the proposed implementation timetable.

Some thought the timetable would only be reasonable if no material points were raised in the consultation responses and there was clarity on the guidance and the monitoring framework before the new licence condition came into effect.

One water company asked Ofwat to consider the complexities of introducing the new condition mid way through the financial year.

Some water companies were of the opinion that:

- Ofwat needed enough time to:
 - reflect properly on the consultation responses;
 - engage meaningfully with water companies on the guidance that will underpin the new licence condition;
 - complete the statutory consultation process;
 - update the vulnerability guidance;
 - set up a mechanism to assess companies' compliance with guidelines, including Paying Fair; and
 - address any potential pitfalls in compliance.
- Water companies needed time to:
 - complete gap analysis; and
 - put in place right internal structures to ensure compliance.

Some respondents suggested the following alternative timelines:

- the new licence condition should come into force from 1 April 2024;
- implementation should be in Q3 2023-24, but full compliance from end March 2024 or April 2025;
- implementation should be a minimum of six months from time both the new licence condition and guidance are finalised and made available.

Our response

We are committed to introducing the new licence condition as soon as reasonably practicable following on from the formal consultation process including our consideration of responses. This means that, should we decide to make the modifications, changes to English water company's licences will take effect from a date no less than 56 days from publication of our decision to make the modifications. For consistency across the sector we will follow the same implementation timetable for companies in Wales.

We believe it is important to introduce this new licence condition as soon as practicable in order to provide an additional tool to drive improved performance in relation to customer service.

We recognise that water companies will need to carry out gap analysis and in some instances update and / or introduce new policies and procedures, including potentially training staff, in order to be fully compliant. We are proposing to include an obligation in the new licence condition to "explain in a manner that is effective, accessible and clear how it is meeting the principles set out in paragraph G3" (where G3 relates to the principles of customer care in the proposed licence condition). This is an opportunity for water companies to set out where and how they are to complying with the new licence condition, including plans to make improvements and address any shortcomings. This aligns with the requirement in condition G3.4 for water companies to " demonstrate[s] continual improvement to prevent foreseeable harm to its customers".

We have noted the concerns about introducing a new licence condition part way through the financial year. We are restricted by the statutory process but will take this into consideration in our decision notice.

We recognise that water companies will benefit from more guidance. Since our May 2023 consultation we have issued our draft vulnerability guidance for consultation which provides more detail on our expectations on water companies in how they provide support and improved services for customers who are need extra help. We have also carried out our assessment of companies responses to Paying Fair, and will use this exercise to inform how we monitor against the licence condition. We are also developing Core Customer Information guidance which will set out what information should be accessible to customers, and when CCW should be consulted. Our current research programme is considering customer service

and experience during incidents, and this will be used to inform our future guidance in this area.

2.8 Responses and conclusions to Question 11

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

What we said

There are some existing licence conditions that cover similar territory to our proposals. We consider that there are two existing licence conditions – Condition G and Condition J – which have some overlap.

We propose to delete the current Condition G and replace it with the proposed new customer focused licence condition. We intend to cover the requirements set out in current Condition G in guidance.

We are also proposing to delete Condition J.

Respondents' view

Fourteen respondents, including eleven water companies, supported removing Condition G and reflecting its contents into guidance.

Fifteen respondents, including ten water companies, supported the removal of Condition J.

One water company was of the view that any such changes should be done only after all relevant materials have been made public and stakeholders have had the opportunity to provide comments. They asked for the new licence condition to include procedures for changing guidance which are applied to the Regulatory Accounting Guidelines set out in Condition F.

Nine water companies made specific reference to Condition E. They were concerned that their ability to meet principles G4.5 and G4.6 of the new licence condition which require water companies to provide adequate support for customers needing extra help, including those struggling to pay, may be constrained by the current interpretation of "undue discrimination" in the setting of charges under Condition E. They sought assurance from us that we will interpret Condition E on a basis that was consistent with the proposed new licence condition and broaden what we deem to be undue discrimination and undue preference accordingly.

One charity stated it would like to see the reporting of customer satisfaction and service levels done holistically and these benchmarked with what pertains in other sectors so that water companies become aware of how their performance compares with utilities in other sectors. Such benchmarking can be done through the UKCSI.

Our response

There were no objections to our proposals.

We are pursuing our proposal to delete the current Condition G and instead to cover, where appropriate, its requirements in guidance. We intend to consult on a new Core Customer Information guidance this Autumn.

We are also pursuing our proposal to delete Condition J.

Relating to Guaranteed Standards Scheme (GSS), all customers of water and sewerage companies are entitled to guaranteed minimum standards of service, as set out in legislation. These rights are known as the GSS. Where a company fails to meet any of these standards of service then it is required to make a specified payment to the affected customer. We monitor the scheme and recommend charges.

Our proposed new licence condition complements the requirements of GSS. We propose that the new Condition G require companies to provide easy to access services and support to all customers. We expect this to extend to how customers understand what they are entitled to, and how they receive any compensation. However, the proposed licence condition itself does not set out the areas in which customers are entitled to compensation payments, which are set out in the GSS.

Relating to Condition E: The proposed new principles for Condition G do not overlap with the requirements set out in Condition E: Undue Preference / Discrimination in charges. The new condition does not cover the setting of charges. Principles G3.5 and G3.6 relating to the support for vulnerable customers relates to the service offering, including those services surrounding charges, for example offering tailored payment plans – but not the setting of charges itself.

3. Next steps

The responses to our May 2023 consultation suggest that stakeholders are broadly in support of us introducing a new licence condition that is focused on customer service.

Based on this, we have updated the proposed wording for the new licence condition and, in line with sections 12A and 13 of WIA 91, commenced the statutory consultation process to progress our licence modification proposals.

Stakeholders are welcomed to provide any further comments or views in their response to the statutory consultation which will close on 23 November 2023.

Annex 1– Changes to proposed Condition G since our May 2023 consultation

Proposed licence condition wording and changes from our May 2023 consultation

| May 2023 Consultation | | Formal consultation | |
|-----------------------|---|---------------------|---|
| Previous number | Previous wording | New number | New wording |
| G.1 | 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. | G.1 | In this condition: |
| G.2 | 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. | G1.1 | 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. |
| G.6 | 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 | G1.2 | References to customers in principles G3.1 to G3.6 means the Appointee's customers in their capacity as occupants of Household Premises. |
| | | G1.3 | References to customers in principles G3.1 to G3.5 means the Appointee's customers. |
| G3 | The Appointee must: | G.2 | The Appointee must: |
| G3.1 | develop policies and approaches to meet the principles for customer care set out in paragraph G4; | G2.1 | develop or have in place policies and approaches to meet the principles for customer care set out in paragraph G3, consulting with the Consumer Council for Water where appropriate; |
| G3.2 | implement those policies and approaches in a way that meets the principles for customer care set out in paragraph G4; and | G2.2 | implement or continue to follow those policies and approaches in a way that meets the principles for customer care set out in paragraph G3; and |
| G3.3 | explain in a manner that is effective, accessible and clear how it is meeting the principles set out in paragraph G4 | G2.3 | explain in a manner that is effective, accessible and clear how it is meeting the principles set out in paragraph G3. |
| | | G.3 | The principles for customer care are: |
| G4.1 | The Appointee is proactive in its communications so that customers of the Appointee receive the right information at the right time, including during incidents | G3.1 | The Appointee is proactive in its communications so that its customers receive the right information at the right time, including during incidents. |
| G4.2 | The Appointee makes it easy for customers of the Appointee to contact it and provides easy to access contact information | G3.2 | The Appointee makes it easy for its customers to contact it and provides easy to access contact information. |
| G4.3 | The Appointee provides appropriate support for the Appointee's customers when things go wrong and helps to put things right. | G3.3 | The Appointee provides appropriate support for its customers when things go wrong and helps to put things right. |
| G4.4 | 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. | G3.4 | The Appointee learns from its own past experiences, and shares these with relevant stakeholders. The Appointee also learns from relevant stakeholders' experiences and demonstrates continual improvement to prevent foreseeable harm to its customers. |
| G4.5 | 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. | G3.5 | The Appointee understands the needs of its customers and provides appropriate support, including appropriate support for customers needing extra help, and including during and following incidents. |
| G4.6 | 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 | G3.6 | As part of meeting principle G3.5 above, the Appointee provides support for its customers who are struggling to pay, and for customers in debt. |
| G5 | 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. | | |

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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