

Putting water customers first – consultation response on introducing a customer-focused licence condition.

Severn Trent response

7th July 2023

Executive Summary

Severn Trent Water response to Ofwat's consultation paper on introducing a customer focused licence condition.

We support the introduction of the licence condition as we recognise the need for the sector to help repair customer trust. Importantly, we believe that the condition helps to promote customer service as a priority for the industry and encourages sustained delivery of outcomes with the appropriate and proportionate powers for enforcement.

The licence condition supports our current customer plans. As a company, we are prioritising the need to improve the customer experience across our region for each customer. We have already initiated several steps to improve customer service, building on the valuable lessons learnt from meaningful customer engagement and large-scale incidents such as the December 2022 freeze-thaw. For example, we have a strong focus on ease of contact – proactively messaging customers to keep them aware of the incident status; regular updates to our website; the ability to make us aware of issues via web form 24/7; and personalised messaging on our phone lines that recognise the customer's postcode and ensure the most relevant information is shared.

These improvements have been delivered within the current regulatory framework and we therefore assume that the new customer protection is not intended to duplicate the existing body of safeguards / customer care measures; and is aimed at prolonged service failures that are not covered by the current framework of complaint handling, individual customer cases handled via WATRs, C-MeX and the 21 common measures in the sector.

We appreciate customers' expectations/needs increase at pace, and we recognise our responsibility in continually improving and evolving our offering to match this pace. In that context, we are supportive of the proposed changes by which Ofwat aims to raise standards within the sector and we share the passion to rightly put customers at the fore.

However, we believe we should be mindful of any unintended consequences of the condition changes. We therefore propose the following for further consideration:

- **Individual customer issues versus incidents** – we have well developed mechanisms to assess our effectiveness in handling individual complaints and we will continue to work with CCW to drive ongoing improvements. We believe the most effective use of principle-based regulation would be to focus on scale events and prolonged service failure.
- **Incentivisation regime** – we would seek to understand how C-MeX will further evolve to sit alongside the new licence changes to allow for effective incentivisation to continue alongside the enhanced licence.
- **Consumer Council for Water** – we have established strong relationships with CCW, working with them regularly and engaging in relevant working groups. As we have moved to a more competitive environment (on reward and penalty), we have observed reduced willingness to share insight between water companies (e.g. Gap sites). We consider customers would directly benefit from a greater willingness from all to share best practice.
- **Guidance Register** – we welcome the addition of further guidance on specific customer groups and would seek to understand the areas likely to be included and prioritised. We would welcome the opportunity to engage in any relevant working groups to ensure the guidance is not overly rigid and is capable of being adopted by all water companies in a way that does not conflict with existing customer initiatives.

Overall, we support the proposed licence change which will help the industry rebuild trust with our customers, whilst using relevant powers for enforcement when companies do not deliver for customers on a sustained

basis. We believe our customer values are already aligned to the spirit of the licence condition. However, we recognise that the condition needs to have clear, but not overly rigid guidance, and will work best if it does not duplicate any of the current customer protections (WATRs/ADR, C-MeX and the 21 common measures). We therefore consider the licence condition would best focus on addressing prolonged service failures. To support Ofwat's intention, we suggest that Ofwat consult with the sector on the Register of Guidance prior to the launch of the new condition and certainty is provided on interpretation, local application and timings for changes. This will allow the sector to embrace the changes and formulate their long-term plans around it.

In the remainder of this response, we address the specific questions raised in your consultation request.

Our response to the consultation questions

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

At Severn Trent we recognise the outcomes that the BS18477 drives for our customers, and we are fully committed to continue working towards this.

We are currently enhancing our approach to inclusivity and, more specifically, financial vulnerability. This includes a review of our current schemes to ensure we have the appropriate support available for the wide variety of circumstances our customers could experience at any point in their life, this includes large families, seasonal income, and long-term financial difficulty. We are also reviewing how our customers access this support, we are introducing a new application process which in turn will provide quicker administration, all of which will be accessible across digital channels, telephony and face to face. This will deliver an easier, customer friendly and more impactful experience for those in need. Once this is delivered, we recognise this will be an appropriate time to achieve the BS18477 accreditation and are actively working on our plans to deliver this. We are keen to see the timeline for introduction of this standard to support this initiative.

We have a few comments and would like to seek some clarity on some of the conditions below.

Customers are well informed

We fully support this approach and have already developed our thinking in this area. To ensure effective measurement, we would expect a focus on the level of proactivity (particularly during service disruption and critical incidents) and the level of customer ease, for example regular updates to the website which are clear and easy to find. An effective measure of communication could be established through measuring repeat contacts during an incident.

As part of the same condition 'Customers are well informed', customers expect to be able to 'speak to a human' which we fully agree with. We always operate on the premise of customer channel of choice. Providing customers access to their preferred channel with the ability to change between channels and move to speak to a human (either through voice or text) when they require. Our website is currently AA rated for inclusivity and we continue to look for opportunities to increase its capability to help the fully diverse range of our customers as we have a keen interest in continuous improvement. We offer text translation for 143 languages and 66 languages in audio and have an ongoing commitment to continue enhancements. We believe we have a broad offering to meet our customer needs which balances the range of availability with financial burden which would be felt by all our customers. We therefore propose amending the wording within this condition to ensure it enables inclusion of all channels to be determined by the company, for example "support from the company will be available at all times across a variety of channels".

When something does go wrong, affected customers have confidence their company will put things right

For the condition 'When something does go wrong, affected customers have confidence their company will put it right', Severn Trent are currently paying more than the minimum standard on GSS as we appreciate the need to compensate our customers when things go wrong, and we opted to enhance our payments during our review following the 2018 freeze thaw event. We are also working alongside Consumer Council for Water ("CCW") as part of their campaign to review the GSS standards. We believe this review should be aligned with the expectations and scope of the new licence.

In terms of measuring a company's success at putting things right when things go wrong, we would welcome guidance on how Ofwat plan to measure this. It is important that such guidance does not undermine or conflict with the existing incentivisation measures in place such as C-MeX and GSS, albeit we expect such incentivisation metrics to be enhanced through PR24.

Within the outcome 'when something does go wrong' it states, 'we want companies to foster a learning approach to their customer service'; we would welcome Ofwat's support in facilitating more knowledge sharing across the industry as this is currently very limited. We recently reached out to the CCW to help identify companies who are driving an improved operational Stage 2 complaints performance, with the aim to sharing best practice, but no companies were willing to engage or share learnings with us. We find greater engagement with topics such as Affordability and Debt but less on topics covered by league tables. We would welcome this knowledge as it would help us drive our continuous improvement culture.

Full diversity of customer needs

Within the condition of relating to 'full diversity of customer needs', we would like to understand when does an issue become an incident. There must be a distinction between the individual customer issue and the larger scale critical incidents. In that, it is important that the licence conditions are cast in a broad manner that can be widely adopted and incorporated into our customer delivery standards. The incentivisation mechanism (i.e. ODIs and GSS payments) should then address any individual incidents/shortcomings. Ofwat interpretation and enforcement is then referred and targets proportionately at scale critical incidents such as the 2022 freeze-thaw. This should be developed in the guidance to provide clarity and help remove the risk of interpretation.

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

We welcome early sight of the proposed wording of the licence condition principles and have set out some of our key comments from our review below.

Specific Comments on wording

Set out below are our specific observations on the new wording, picking up the condition numbering appearing in Chapter 5, Table 3.

Condition G1 – *“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.”*

- We believe Ofwat’s aim with this licence condition is to raise standards within the sector and it is clear they are passionate about doing the right thing for customers. We think Ofwat would achieve the same outcomes with our suggested changes below, while also giving water companies more clarity.
- Condition G.1 requires the Appointee to "adopt high standards of customer service". We have concerns over the use of the word ‘high’ in this context. The word is subjective and will mean different things to different people. We would consider qualifying this by, for example, changing to "adopt generally accepted good standards of customer service". We note that Emma Kelso herself used the words “good performance” and we suggest the word ‘good’ is right and meets Ofwat’s aims.
- Condition G.1 also requires the Appointee to "support for the full diversity of customer needs". This is a very wide-ranging statement. We propose qualifying (and correcting the sentence structure) by referring, for example, to provide “appropriate support for the full diversity of customer needs”. Again, we feel this better achieves Ofwat’s aims.
- Furthermore, in relation to Condition G.1, we propose wording should be added to make it clear that Condition G.1 is a generalised obligation and not enforceable in relation to any individual customer complaint.
- We are supportive of the last sentence, namely “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”. We do not see the new licence condition as an individual complaints tool. We do not want to duplicate other regimes such as our detailed complaints procedure (which includes CCW), GSS and C-MeX, for which we are incentivised to perform well for customers already.

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.”*

- We note that there is no existing definition of "Customer" with a capital C. There is however an existing definition of "Appointee's customer". We propose that this condition should be aligned with that existing definition.
- In Condition G.2 it says ‘...may cause’, which we suggest is subjective, notwithstanding the 'not trivial' qualifier at the end of the condition. We propose amending this to "means an event or situation which would or may reasonably be expected to cause damage or disruption which is not trivial".

Condition G3.2 – *“The Appointee must: implement those policies and approaches in a way that meets the principles for customer care set out in paragraph G4.”*

We propose this licence condition is qualified to avoid any single event not consistent with those policies being a breach of the condition. We propose an amendment would read as, "implement these policies and approaches in a way that generally meets the principles for customer care set out in paragraph G.4."

Condition G.4 – *“The Appointee is proactive in its communications so that customers of the Appointee receive the right information at the right time, including during incidents. The Appointee makes it easy for customers of the Appointee to contact it and provides easy to access contact information. The Appointee provides appropriate support for the Appointee’s customers when things go wrong and helps to put things right. 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. 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. 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.”*

- In licence condition G.4.4 we propose deleting the word “past” given that all experiences are past by their definition.
- With regards to "other's experiences" we would welcome further conversations as to who Ofwat envisage “others” are in this context. We propose it is limited to water companies subject to the new Condition G.
- We suggest that the wording "demonstrates continual improvement" is inappropriate in the context of a binding licence condition and instead propose relying on the requirement to learn from its own experiences and the experience of others.
- Licence conditions 4.4 and 4.6 say "the Appointee understands the needs of customers of the Appointee and provides appropriate support" and "provides support for customers of the Appointee who are struggling to pay, and for customers in debt". We have concerns about the open-ended nature of these principles and explore this further below.

Condition 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 the matters specified within the principles or that guidance.”*

Whilst we agree with the proposal to include the CCW as a consultee (see response to Question 7 below) we believe this gives CCW a significant role in relation to water companies developing or revising any policies or processes relating to consumer-related matters and is arguably a very broad obligation. We suggest that the role and scope of CCW in this context should be more clearly defined and focused on the areas where they add genuine value (e.g., customer complaints).

Our representations

We propose that Ofwat should issue its guidance in final form prior to publishing its statutory consultation on the new condition. The reason for this is so that water companies are clear and fully informed as to what Ofwat's initial guidance is before they make their representations on the licence conditions. Otherwise, there is a danger that the guidance could re-direct the scope/focus of the condition and, as a result, the statutory consultation is incomplete and not comprehensive.

The proposed principles appear to be quite broad and open to interpretation. One example of this is the proposed licence condition G4.6 which would require water companies to provide "support for customers of the Appointee who are struggling to pay, and for customers in debt". At one extreme, such a principle might conceivably be interpreted as requiring water companies to provide water and sewerage services free of charge to lower-income customers or to write off debts accumulated by such customers. Clearly, this is not the intention, and the focus is the support package we offer to our customers, which we are proud to state is one of the most generous (90% discounts) in the sector.

Further how Ofwat can apply a different interpretation to the principles is through revising its guidance. This is expressly contemplated in proposed condition G5, which provides for Ofwat to issue and revise guidance at will. As presently drafted, there is no constraint on Ofwat's ability to revise its guidance and no requirement to consult. For this reason, we would welcome further conversation with Ofwat on adding checks and balances to the guidance it issues to help ensure it lands as intended.

The potential breadth of guidance is illustrated by the fact that, in Chapter 8 of the Consultation, Ofwat contemplates that the specific requirements of Condition G (core customer information) and Condition J (levels of service information and service targets) can be moved to guidance. In other words, the guidance can entirely replace two licence conditions. For us, again, this highlights the need for appropriate checks and balances to the guidance.

In summary we believe that water companies will have a good understanding of Ofwat's intent when laying down the high-level principles. However, we propose further exploration is needed on the following:

- Intent of wording – it would be helpful to talk through worked examples alongside existing customer focused measures;
- Guidance – the process for it and how water companies will be engaged and consulted; and
- CCW – we could better understand their role and interaction with Ofwat in the development and policing of the licence and guidance.

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?

At Severn Trent, we have been supportive of the market separation, and we agree with the approach to exclude non-household services from the condition relating to those customers who are struggling to pay. We also support your note regarding there being no requirement in the Business Retail Market in England to provide support for non-household customers in debt. Our position would remain that we continue the relationship with the retailer who, in turn, will manage the end customer affordability.

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

At Severn Trent, we agree with the approach of the sub-condition G4.5 regarding customers in vulnerable circumstances including non-Household customers. As part of this, whilst the management of the customer is mainly done through their retailer, we are still notified of individual needs as part of the PSR, particularly when its incident related such as supply interruptions.

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

We believe condition G4.3 should be prioritised as part of the development of the guidance. When things go wrong, we help put things right for our customers by tracking scale incidents so that we can identify geographical hotspots; analysing data; undertaking root cause analysis; and applying those learnings for future events. Establishing much faster and more effective communication as well as enhanced repair results in significantly less customer disruption and need to contact.

This is best illustrated through our response to the 2022 freeze-thaw which provided a 93% improved performance on supply interruptions and, where service interruptions occurred, all customers were texted within 5 minutes (as compared to the 2018 'Beast from the East' freeze-thaw). We clearly listened to our customers' needs and invested considerably to apply the lessons learnt and to meet our customers' expectations.

These are some of the things we do as a company for our customers. Where there are individual customer complaints, we have an established detailed complaints process. We will continue to work closely with CCW to continually improve our response times and effectiveness for individual complaints. Within that context, we believe the role for the new principle-based regulation is to set the standard for customer care but to focus its intervention/enforcement on the sectors response to critical incidents. That would deliver the best approach for customers, for the licence condition to fill in the gaps in the current regulatory approach rather than add complexity to areas that already have established processes in place.

Incident Management

Within condition G4.1, GSS is currently the mechanism used to govern company adherence to issues updated and communication to customers during supply issues. We would like to understand whether that is to remain the principal solution and will Ofwat be working alongside CCW on their end-to-end review of GSS. CCW have set this as one of their four key focus areas, in which we are part of the working group, and we would strongly advocate this approach.

Full diversity of customer needs

We also feel the full diversity of customer needs should be a priority. As we referenced in our response to Question 1, we are currently enhancing our approach to inclusivity and, more specifically, financial vulnerability. Along with this, our new application process will ensure we can provide the required support to our customers quicker and across multiple different channels.

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

We would specifically like to explore further guidance around the appropriate levels of communication. As mentioned in our response to Question 2, we propose that Ofwat should issue its guidance in final form prior to publishing its statutory consultation on the new condition so that water companies are clear and fully informed.

We would seek to understand if there is a plan to have minimum standards approach on 'easy for customers of the Appointee to contact it', particularly in terms of which contact channels are expected. We currently have a higher number of customers using our digital channels, which could encourage others to adopt the same innovation and potentially level out some of the channel disparity displayed in C-MeX.

Another area requiring more guidance is around debt collection. We strive to achieve the standards set down by the relevant external authorities, e.g., FSA Guidelines/Treating Customers Fairly principles whilst also opening new channels to allow customers to communicate through their preferred method. We have developed personalised and tailored debt journeys to ensure the effectiveness of our collections approach and feel we already have sufficient guidelines to ensure the highest of standards are achieved.

Further clarity is also required to confirm whether the prescribed standards are intended to be treated as 'minimum' standards that all must achieve or 'gold' standards that we should strive towards. Not all standards may be defined in this way, but we suggest that there is merit in setting gold standards where appropriate to help move the sector in the desired direction through its medium-term investment/planning strategy.

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

We agree and feel this is important.

We feel that CCW can add genuine value here and they already do in relation to individual customer issues. We already have regular conversations with CCW regarding customer performance, innovation and campaigns. It would be good to understand who would be monitoring the licence and whether this would form part of the role of the current stakeholders within CCW that we already have relationships with. We feel there is a risk that CCW could become strained, and this could impact the brilliant work already ongoing in this space and so we propose this is given thought.

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

We believe sharing learnings across other sectors would provide insight to this new licence condition and process, in particular Ofgem are key here. Below are some questions we believe would have been asked ahead of the introduction of Ofgem's equivalent principle-based regulations:

- Are you saying we could NOT follow guidelines?
- Which things do you want all companies to do in the same way?
- Do you want us to aspire to drive up service culture? At what cost? For example, is a poor job at a lower price acceptable and vice versa?
- Is the service expectation a minimum standard? Or a gold standard to work towards?

We would like to better understand how we know that the right standard is set.

As part of the condition, we feel that it is important that the detail of the service offering is appropriately considered, particularly when a customer's experience can be underpinned by processes and policies which are fair and specific. For example, in our debt collection journey we will always communicate with customers with the aim of being able to discuss appropriate options if they are having difficulty paying their bill, but we do require mutual engagement and at times consequences can be misunderstood. We offer bespoke journeys that are tailored to customer profiles which will continue to be regularly reviewed.

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

Whilst we are supportive of reporting the requirements annually, we would like some clarity on how this would work in practice and the most appropriate and proportionate reporting form.

We already have a rigorous submission process as part of our CCW quarterly submission and we would ask for the annual reporting requirements to be built off the back of this so it can fit within our current approach rather than create a brand new data submission. We have internal processes with clear business owners, governance and assurance already which is then audited at year end. It would be helpful if this established process is utilised for this new reporting.

It is our proposal that our Board sign off on our compliance with the benefit of external third party assurance. We think this would still be successful in achieving Ofwat's aim of sharing their high-level thoughts as to what they see as good and what are the areas of concerns, and further focus as CCW is being proposed as a consultee.

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

We recognise that Ofwat plans to implement the new licence condition in Quarter 3 in 2023/24 (i.e., Oct-Dec 2023). This timetable seems quite fast to take full account of stakeholders' comments and to go through the statutory licence process. In addition, as per our response to Question 2, we suggest that Ofwat should issue its guidance in final form prior to publishing its statutory consultation on the new condition. This will ensure we are all sighted on the full picture and baseline position before the condition comes into effect. Whilst this may serve to delay the launch, it will ensure we are prepared to succeed together and to collectively present a positive message to our customers.

With that in mind, we suggest that Ofwat might need to allow more time for the new licence condition to come into force, perhaps coming into force from 1 April 2024. That would also give companies more time to make any required investment and operational changes in advance of the licence condition coming into force.

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

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 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.