



Action for Warm Homes

Comments on Provisional Findings: PR19

Competition and Markets Authority
The Cabot, 25 Cabot Square,
London,
E14 4QZ

waterdetermination2020@cma.gov.uk

National Office

Level 6 (Elswick)
West One
Forth Banks
Newcastle upon Tyne
NE1 3PA
Tel: 0191 261 5677
E-mail: info@nea.org.uk
<http://www.nea.org.uk>
Twitter: @nea_ukcharity

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Comments on Provisional Findings of Water Redeterminations 2020

National Energy Action (NEA) recognises that many low-income households experience affordability issues with their essential household bills, rarely struggling with one bill in isolation, and as a result is delivering a programme of work which seeks to support 'People Living in Water Poverty and Fuel Poverty'. Our programme aims to eradicate water poverty by 2030, by raising awareness of the issues households face, and through aligning policy and practical action to support low-income households across sectors and across all regions of the UK.

Recognising our consumer focus, specifically related to the affordability of water, we have chosen not to provide comment on the wider redeterminations, but instead would like to offer focused comments on what these provisional findings likely mean for low-income households who find themselves in water poverty.

Firstly, it is important to reiterate that NEA is working towards the eradication of water poverty in the UK, and therefore any reduction in customer bills is a step towards this goal. This is something we feel Ofwat made a clear attempt to deliver in their final determinations of PR19, and something which correlates with the United Nations' Sustainable Development Goals which call for accessible water which is safe, clean and *affordable* for all. In our response to Ofwat's Draft Determinationsⁱ for PR19, we welcomed their recognition of affordability issues with water bills, noting the significant impact water poor customers would experience from the proposed reduction in bills in England and Wales. We stand by these comments.

Secondly, we need to highlight that a measure of water poverty has still not formally been agreed, and due to different billing types and financial support options such as social tariffs, it is therefore difficult to measure the exact number of households who would likely 'move out of water poverty' due to these bill reductions. However, our initial analysis suggested an 8.4% reduction in households in water poverty, based on a 3% bill-to-income ratio measure, for the final determinations published in December 2019.

Customer Bills

Any change to customer bill profiles has a direct impact on the number of households in water poverty, regardless of the measurement used. Reductions on bills will reduce the 'water poverty gap'ⁱⁱ for customers,

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that is the amount bills need to reduce by or incomes need to increase by to take customers out of water poverty.

The provisional findings of the CMA will result in higher bills for all customers of the four appealing water companies than if Ofwat's final determinations had been accepted. This therefore will mean that more customers remain in water poverty compared to 2019/20 than our initial analysis suggested – a change from an 8.4% reduction in households in water poverty, to a 6.3% reduction.

When modelled on average bill prices corresponding to the various supplier/sewerage relationships seen across England and Wales, the provisional findings of the CMA still result in an average bill reduction of over £13.50 (3.3%) when compared to 2019/20 average bill prices. This is therefore still a significant cost saving for customers and will result in customers with less severe affordability issues moving out of water poverty, albeit not as many as would have under Ofwat's final determinations.

In theory, any reduction in the number of households in water poverty results in the funding for support increasing on a 'per head' basis. The changes in bill profiles may reduce the 'depth' of water poverty for those in more severe financial situations but they will not take them out of water poverty. This overall reduction in numbers of water poor households will release funding, meaning companies are better placed to offer higher levels of support to customers remaining in water poverty.

NEA heard anecdotal evidence from water companies in response to the final determinations which suggested the reductions in allowances impacted their ability to deliver on long-term resilience. As highlighted by Sir James Bevan, Chief Executive of the Environment Agency, water scarcity is becoming an increasing issue for the United Kingdom, and we risk not having enough water to supply our needs within the next 25 years. In 2012, the European Commissionⁱⁱⁱ stated that "setting the price of water is a key tool used to support water management decisions; water that is under-priced may lead to its unsustainable use. In the EU, member states... are required, among other measures, to recover the cost of water services as a means of promoting sustainable and efficient water use". If a smaller reduction in bills now reduces the risk of higher bill spikes in the future due to water resource management, then we believe the long-term impact on both the affordability and accessibility of water could be improved.

NEA therefore believe the proposed household bill profiles can be accepted as long as there is a clear focus now on the broader response to affordability support by industry, Ofwat and where relevant the UK Government.

In our February 2020 response to their forward work programme consultation^{iv}, we outlined several actions Ofwat could take to enhance the sector's affordability and vulnerability support offering. We stand by our recommendations in this response and believe these should be progressed immediately. This includes, but is not limited to:

- The development of a vulnerability principle licence condition to provide a clear focus on the identification of, and support for, customers in vulnerable circumstances;
- The development of a Vulnerability Strategy, aligned to Ofwat's wider strategy, Time to Act Together, but providing more detailed guidance and initiatives for supporting customers in vulnerable situations;
- The collaborative development of a framework to measure value for money to accurately quantify the impact social value has relative to the investment to deliver it; and
- For PR24:
 - The continuation of 'affordability and vulnerability' as a key theme for the next price review;

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- The development of additional performance metrics, potentially linked to penalty and reward, for supporting customers in vulnerable circumstances to stretch companies further and ensure their performance is comparable;
- Alignment of all companies to the same definition and measurement of water poverty; and
- Development of a performance commitment to reduce extreme indebtedness.

Additionally, we stand by our recommendations for a full review of social tariff guidance, funding mechanisms, support levels and eligibility criteria, as outlined in our discussion paper, ‘Water Poverty: The Consistency of Social Tariffs’^v and welcome the recent announcement of an independent review of current financial support measures in the water industry. This is even more important considering the proposed smaller reduction in average bills and the current economic situation as a result of Covid-19.

Customer Engagement and ‘Willingness-to-Pay’

Highlighted in sections 7.54 to 7.59, ‘Role of Customer Evidence’, we agree there is significant value in the customer engagement currently required under the business plan process, and that continuation and refinement of this process should be encouraged. Customers and stakeholders provide valuable insights for water companies when developing business plans, and their views should be reflected in company decisions, particularly those made at the local level.

However, section 7.57 specifically highlights the significant variations in customer preferences across different regions and questions the validity of these regional disparities in customer preferences and opinions – a concern which NEA shares.

In the discussion paper previously referenced (Water Poverty: The Consistency of Social Tariffs) we called for a full review of social tariff guidance, funding mechanisms, support levels and eligibility criteria. Social Tariffs are currently funded by customer cross-subsidy, determined through customer engagement and ‘willingness-to-pay’ research. The level of support and eligibility for company specific social tariffs are reliant on the amount of cross-subsidy agreed through this research and must be discussed with CCW to ensure they align with customer views of acceptability.

Currently, the amount of customer cross-subsidy taken for social tariff support from 2020/21 bills ranges from £1 (a water only company) to £15 (a water and sewerage company). As a result, the range of support varies greatly too, with some companies offering discounts as high as 90%, and others as low as 10% of the total bill. These differences in levels of support and eligibility criteria have created a significant postcode lottery for financial support across the water industry in England and Wales, and therefore it can be argued that customers are being treated unfairly due to where they live.

In their research on the customer acceptability of the PR19 draft determinations, CCW^{vi} found the following trends:

- “Uninformed and informed acceptability, and acceptability of ODIs [Outcome Delivery Incentives] increases in-line with household income;
- “Similarly, when looking at Socio Economic Classification (SEC), customers in higher SEC bands are significantly more likely to consider the proposed acceptable than those in the lower SEC bands;
- “Additionally, those who report having difficulty paying their water bills on time are significantly less likely to find the proposed bills acceptable at any level, including the potential of ODIs; and

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- “Customers who are on their company’s Priority Service Register (PSR) are less likely to find the proposals acceptable at the uninformed and informed levels than those who are not on PSR.”

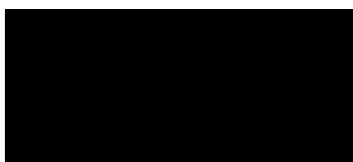
This raises a few concerns when considering the current approach to willingness-to-pay:

- Firstly, it appears to differ significantly across companies and regions, possibly due to the methods used, the questions asked, and the customers engaged.
- Secondly, the cost of willingness-to-pay research is extensive and is not solely incurred during the business planning process as companies are required to go back out to customers to continuously understand their levels of acceptability.
- Thirdly, there are substantial differences in acceptability across customer groups, dependent on income and socio-economic classification. If 20% of customers engaged are within low-income households and don’t find the plans acceptable, they could potentially still be approved under the definition of ‘broad acceptability’ if the remaining 80% of engaged customers agree with the plans. This means the opinions of the customers most at risk of detriment are potentially ignored.

We therefore feel it important to highlight the requirement for central government to consider the CMA’s concerns regarding the regional variations in customer preferences, and the importance of reviewing company-specific research alongside other evidence, particularly in relation to forthcoming affordability review.

We would be happy to discuss the points raised within this letter with you further,

Yours sincerely,



Jess Cook

Project Development Manager (Water Poverty)

jess.cook@nea.org.uk

ⁱ NEA Response to Ofwat’s consultation on draft determinations. Available at: <https://www.nea.org.uk/wp-content/uploads/2019/08/Consultation-Response-Ofwats-draft-determinations-PR19.pdf>

ⁱⁱ NEA Discussion Paper – ‘Water Poverty: A Common Measurement’. Available at: <https://www.nea.org.uk/water-poverty/>

ⁱⁱⁱ European Commission (2012) Science for Environment Policy: Pricing Policies for Efficient Water Management. Available at: https://ec.europa.eu/environment/integration/research/newsalert/pdf/307na6_en.pdf

^{iv} NEA response to Ofwat’s consultation on their forward work programme. Available at: <https://www.nea.org.uk/wp-content/uploads/2020/02/NEA-Consultation-Response-Ofwat-Forward-Work-Programme-2020-21-FINAL.pdf>

^v NEA Discussion Paper – ‘Water Poverty: The Consistency of Social Tariffs’. Available at: <https://www.nea.org.uk/wp-content/uploads/2020/06/Water-Poverty-The-Consistency-of-Social-Tariffs.pdf>

^{vi} CCW (2020) ‘PR19 Draft Determination Research’. Available at: <https://www.ccwater.org.uk/wp-content/uploads/2020/02/PR19-Draft-Determination-researchFebruary-2020.pdf>

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