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Futures Lab  
Ofwat  
City Centre Tower  
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Dear Ofwat

**Citizens Advice submission to the review: 'PR24 and beyond: Future challenges and opportunities for the water sector'**

Citizens Advice welcomes the opportunity to respond to this consultation. Our response is not confidential and may be freely published.

Citizens Advice has a statutory role to represent energy consumers in Great Britain and we believe that there are many crossovers with the water industry. In particular, we believe that effective stakeholder engagement by monopoly service providers is a priority. Stakeholder engagement needs to be robust enough to understand how consumers feel about the big and complex issues relating to climate change, net zero, the wider environment, and affordability. Companies can then ensure that they provide the services that consumers need and want, and at a price that consumers support. Regulators will also need to be responsive to new circumstances that may impact consumers, such as the COVID-19 pandemic.

**Patron HRH The Princess Royal      Acting Chief Executive Alistair Cromwell**

Citizens Advice is an operating name of the National Association of Citizens Advice Bureaux.

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We have been involved in the price control processes in energy and water in a number of ways:

- Inputting to energy price control consultations for the DCC, RIIO-2, and RIIO-ED2
- Contributing to the recent Competition and Markets Authority (CMA) appeal processes for NATS and PR19 which have relevance to the energy sector
- Looking at cross-sector issues such as improving utility data practices in identifying vulnerable consumers
- Undertaking and publishing associated research
- Contributing to various challenge groups. These include the overarching RIIO-2 Challenge Group which has a wide remit looking at all aspects of company business planning processes, and has a valuable comparative role. We have also been members of the RIIO-2 gas and electricity transmission User Groups, 3 of the 4 RIIO-2 gas distribution Customer Engagement Groups (CEGs), 3 of the 6 RIIO-ED2 electricity distribution CEGs, and liaising with the remaining CEGs.
- Staff member, who in a past career, has been a member of a water company Customer Challenge Group (CCG) during the PR14 and PR19 price controls

While we have covered many topics during our work in the utilities' price controls, we will describe below some aspects that are particularly relevant when considering the water price control framework to ensure that it meets consumers' expectations for the future. These aspects are **stakeholder engagement**, **value for money for consumers**, and **responsiveness to new issues** such as the COVID-19 pandemic.

## **Stakeholder engagement**

Ensuring that the views of stakeholders are driving the work of monopoly network companies is a vital element of any regulatory price control process. The issues facing consumers are becoming increasingly complex, with a requirement to weigh multiple relevant factors, such as climate change, meeting net zero, other environmental concerns, service expectations including for those at risk of greater harm, detriment or discrimination, and affordability. It is therefore of critical importance that utility companies can engage effectively to explain the current and future scenarios, the options available and their costs, and to truly understand what consumers need and want from them. We understood that a step-change in engagement was needed from the energy network companies, and in anticipation of the RIIO-2 price control process, we commissioned research from the think-tank Involve. [‘Strengthening the voice of consumers in energy networks’ business planning](#), was published in May 2018, and gave recommendations to the energy companies and Ofgem.

For RIIO-2, Ofgem introduced new enhanced engagement requirements, which incorporated aspects drawn from the Ofwat engagement model, such as requiring company challenge groups. While the RIIO-2 enhanced engagement process was an improvement upon prior price control stakeholder engagement, we have identified a number of points where improvement could be made and have recently published our reflections in our report [‘RIIO-2 price control enhanced engagement process: Recommendations to Ofgem and energy network Customer Engagement Groups and User Groups’](#). We have also shared our Sustainability First-commissioned research which we used in our CMA appeal submission [‘Water companies’ use of customer engagement in their PR19 redetermination statements to the CMA’](#).

The key messages from these publications are:

- **Engagement needs to be broad, deep, and encompass new techniques** involving deliberative methods to reach every community and to develop consumer understanding in the most complex subjects. Environmental concerns, willingness to pay for new services, financial matters like cost of capital or fairness of returns, and how much support is given to those who are more at risk of harm, detriment or disadvantage, are areas needing in-depth, informed and longer term engagement.
- **Challenge groups are an effective way of improving and embedding engagement** within companies, but they need to ensure that they have **appropriate expertise as well as preserve their independence**.
- **The overarching RIIO-2 Challenge Group model added value with its wide remit, clear independence, and ability to be able to take a comparative view across companies.**
- **Regulators need to be clear how they have used and weighed stakeholder evidence and the challenge group contributions in their assessments of companies’ business plans.**

It is clear that these learnings from prior stakeholder engagement developments need to become **embedded within business as usual** at monopoly network companies. Their stakeholder engagement needs to **deepen and broaden to be fully inclusive**, and to **gather views on the most complex and forward-looking issues**. The future water price controls need to ensure that **effective stakeholder engagement continues to be at the heart of business planning**.

## Value for money for consumers - Cost of capital and financial issues

The risks and rewards for monopoly utility companies are comparable across water and energy. Financing of these companies through the price control needs a close scrutiny of matters such as cost of capital. The implications for consumers are substantial as small changes on cost of capital can affect consumers' bills for decades to come. We have undertaken significant research looking at the financing of utility companies using leading economic consultancies to support us in our work. This research has included reviewing monopoly finance in energy, water, telecoms, and aviation sectors to address common issues. We have argued that the cost of capital approved by regulators has been too high in the past and has cost consumers billions in overpayments.

Our key publications on financial matters include:

- [CMA PR19 Appeal Provisional Findings - Citizens Advice Response, 2020](#)
- [Redetermining water, 2020](#)
- [Monopoly Money: How consumers overpaid by billions, 2019](#)
- [The postcode lottery in energy profits - a regional update of Energy Consumers' Missing Billions, 2018](#)
- [Energy Consumers' Missing Billions, 2017](#)

It will be important in future water price controls to **ensure that the cost of capital and financial arrangements for companies are value for money for consumers while providing the ability for companies to meet the needs and wants of consumers.** The low risk companies in the water and energy utility industries should be financeable and only receive a fair reward for the work that they undertake. As such, **it is important to have robust, evidenced-based arguments on costs of equity and debt, and how these are applied to the businesses, to protect consumers from the risks of overpayment.**

## COVID-19 learnings and responsiveness to future issues

The COVID-19 pandemic has demonstrated that the utility sector and the regulatory environment needs to be responsive to fast-changing issues that affect consumers. While the impacts for consumers from the COVID-19 pandemic are still to be fully realised, we have used our knowledge from a number of sources to analyse how consumers have been impacted now as well as consider the implications for the future. As a consumer-facing organisation, we have

been able to collate extensive data from our Local Citizens Advice Offices, our telephone-based Consumer Service, our website, the Extra Help Unit which supports those needing assistance due to their more challenging circumstances, and the policy research teams across Energy, Post, Consumer and Public Services, and Families, Welfare and Work departments. In 2019-20, we had 34.5 million visits to our website, helped over 1.3 million people face to face, over 1 million via telephone, supported 483,000 via our Consumer Service, and a further 436,000 people through email or webchat.

We issued reports and blogs on the trends we identified. The target audience includes the public, government, regulators, and other policy makers. It is clear that there are financial pressures on consumers through income reduction, job loss, and build up of debt. We have advocated to Ofgem to take on board these issues which may affect the willingness and ability of consumers to support new or expanded services. We have also highlighted the implications of changes in future demand profiles for energy which may result in changes in planning by network companies for infrastructure. **Affordability, and changing consumer patterns of behaviour and perspectives should be reflected in future water price controls as the impacts on consumers become clearer.**

Our key publications:

Specific to the water industry

- ❖ [Citizens Advice response to CCW's independent review of affordability support for financially vulnerable water customers in England and Wales](#)

Blogs

- ❖ [Helping more people during the coronavirus pandemic](#)
- ❖ [Looking back at 2020](#)
- ❖ [Wales is facing a debt crisis](#)
- ❖ [Hundreds of millions of pounds of council tax and rent arrears is a long term risk](#)
- ❖ [Coronavirus has hit household budgets — government action can help avoid a debt crisis](#)
- ❖ [We're facing a jobs crisis. It's vital our benefits system is up to the challenge](#)
- ❖ [Down to the minute: how our data reveals the nation's concerns in real-time](#)
- ❖ [What today's data tells us: people are worried about making ends meet](#)

Research reports and press releases

- ❖ [Half a million renters in arrears as evictions set to resume](#)
- ❖ [Recovery or Ruin? The role of accessible support in helping energy consumers through the crisis](#)
- ❖ [Lockdown debts: estimating the size of lockdown arrears](#)
- ❖ [New restrictions, missing protections](#)

- ❖ [Life on less than zero](#)
- ❖ [Excess debts - who has fallen behind on their household bills due to coronavirus?](#)
- ❖ [1.3 million households have fallen behind on council tax due to coronavirus](#)
- ❖ [Near the cliff-edge: how to protect households facing debt during COVID-19](#)

Best practice guides for network companies to respond effectively to the COVID-19 pandemic

- ❖ [Getting support to those who need it: How to improve consumer support in essential services](#)
- ❖ [Risks to consider and examples of good practice for energy suppliers and networks to support consumers affected by Covid-19](#)

## Conclusions

Regulated monopoly utility companies, now and in the future, need to provide the services that consumers need and that is value for money. The price control process needs to ensure that the heart of any network company business plan is driven by effective stakeholder engagement, and can respond to the changes in consumer preferences, including those relating to environmental concerns, or those from special circumstances, such as the COVID-19 pandemic. Network companies need to be incentivised to provide the infrastructure and services to deliver quality water and sewerage services but should not be over-rewarded. Ofwat will need to ensure that the price controls of the future have robust evidence to support the calculations for revenue allowances.

We have been pleased to respond to this consultation and look forward to continuing our advocacy for consumers in energy as well as to contribute where there are strong cross-sector factors, such as in this 'PR24 and beyond' consultation.

Yours faithfully

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