

Independent Water Commission: Call for Evidence

A submission from Citizens Advice to
the Cunliffe Review

Overview



Who we are

Citizens Advice is on the frontline - in every region of England and Wales - helping people find a way forward with their problems. Last year we helped 2.7 million people on issues ranging from employment to housing to energy costs. This gives us a unique window into peoples' lives - how they spend, how they save, how they survive. Our real-time data helps us to analyse trends and can help the government and regulators make the most effective decisions across a range of sectors and timescales.

We have tracked the collapse in living standards clearly through our negative budgets data, where people's essential outgoings now outstrip their income. This cohort of people now account for half of the people we give debt advice to, up from a third in 2019. While concepts such as 'fuel poverty' or 'water poverty' are often used to measure affordability challenges, negative budgets are a more accurate and holistic measure since, by definition, someone in this situation cannot pay for any essential bill without having to fall behind on another. It is therefore not surprising that many more people now seek our advice with essential bills including water, energy, broadband and motor insurance. It is clear that for most, the weight of these bills has become unmanageable over the last few years.

Beyond a direct need for support with essential bills, another clear trend we've seen is a significant growth in the number and complexity of issues people need our support with. Consumers, especially those in more complex situations, tend to have multiple issues which can run across several different markets. Their issues do not exist in silos from each other; rather, as is the case in most people's lives, they are multilayered and intertwined. It's here that we see the greatest impact of our ability to work holistically - a single trusted voice offering multifaceted advice underpinned by a depth of understanding of how issues and markets impact one another.

Citizens Advice is a well known brand, 92% of people know who we are and we are trusted to help with a broad range of issues. We support around 35,000 each year with a problem with their water supplier and a similar number with debt advice linked to water arrears. We are not the statutory advocate in this sector so lack the resource to conduct thorough research or advocacy activities using this data, unlike in energy or post.

Our role as an independent advocate

Another important consequence of our holistic approach is the impact it has on our advocacy. At its most effective it can pool expertise (for example around economic regulation, pricing reviews and natural monopolies), spot patterns across different sectors and look at cross-cutting issues such as the roll out of new technology, pricing practices such as 'loyalty penalties' or the treatment of consumers in vulnerable circumstances.

As the independent statutory advocate for consumers in energy and post, we know that identifying areas where markets are not working effectively and developing solutions for improvement can result in significant savings to consumers, raising living standards and putting money back into people's pockets. Having such a large service delivery arm results in rich and live data, painting a picture of what is happening in every single region and locality within England and Wales.

Key to this is our independence from government or regulators - something we think is essential for any statutory advocate. It means that consumers and institutional stakeholders alike trust that our advocacy is entirely in the interests of the consumer and has no second motive or mandate. Our research bears this out - almost 4 in 5 (78%) people believe there should be an independent body to represent consumers' interests in all essential markets.¹ Our independence also makes it possible for us to effectively join the dots between industry, government, regulators and consumers; a function that would not be possible were we based inside one of these institutions. And as we see in the energy retail market, independence enables our trusted industry performance review mechanisms such as the [Citizens Advice Star Rating](#) to drive companies to improve material outcomes for consumers, and builds consumer confidence in the market by offering trusted appraisal of firm performance. Ultimately, a statutory advocate needs to be able to be a critical friend to government and regulators, and to be critical requires independence. There has been discussion in some markets of locating the advocate within the relevant regulator - for the reasons discussed above we think this would be an error. Regulators should have internal functions which are focused on consumer protection and outcomes, in the same way that firms and suppliers should too - this is a different function to that of an advocate and the ideas should not be conflated.

Why we are responding

¹ Citizens Advice commissioned Yonder Data Solutions to survey 2,293 UK adults. It was boosted to include 526 people with mental health difficulties. Fieldwork took place from 26-30 June 2024.

Despite the best efforts of our specialist advisors, we continue to see far too many households either fall behind on their bills, have to go without essentials, or borrow unsustainably. All of these are harmful and are clearly not the intention of government, regulators or industry. To remedy this, it is vital that there is an effective suite of support on offer across essential markets to ensure that those on low incomes are not priced out or forced to make these impossible choices. Support with water bills is a key part of our work on this topic² and we set out some of our findings and recommendations later in this report. In particular we consider that:

- **There is a need for a single social tariff scheme to end the current postcode lottery of support**
- **Such a scheme should be designed in a way which allows it to be automated wherever possible (learning from the success of the automation of the Warm Home Discount in the energy market)**
- **While reducing water poverty is a sensible objective for such a scheme, the concept should be used as a guide rather than as a strict eligibility criteria.**

We are aware that the number of responses from consumer organisations to reviews such as this are hugely outweighed by those from industry. In this response we have also aimed to set out for the benefit of the Review some of the insights which we have gained from our current statutory advocacy roles where there are learnings which can be transferred to the water sector. In particular we reflect on our significant experience around:

- **economic regulation** and some of the ways we have looked at improving the process in the energy market,
- the **roll-out of smart meters** and lessons learned from that experience which would be valuable to consider in the water sector
- the **creation of innovative tariffs** and what the correct regulatory regime would look like to enable innovation while maintaining consumer protection,
- **transparency of pricing and quality**, and
- the **support of customers in vulnerable circumstances**, including the role of the Priority Services Register.

Finally, we want to stress to the review the importance of having an independent statutory voice for consumers in markets such as water. As noted above, the independence of such voices is paramount, and **we would strongly recommend**

² For more detail on this work see our launch report, [Securing Life's Essentials](#) and our more recent report set of reports, [Fairer Bills, Smarter Systems](#)

against any move to weaken that by integrating advocacy within government or a regulator such as Ofwat. We would also argue that the Review should carefully consider what mechanisms are needed to ensure that the consumer voice has a decent chance to be well balanced against that of the sector. This requires resources but also the recognition that industry will always be better resourced and have more voices at the table, and so **the problem of how to create effective ways to give more weight to the consumer voice - in particular around economic regulation, price reviews and appeals - must be something the Review considers when looking at the overall regulatory framework of the sector.** We end by considering the role that a strong consumer voice can play in restoring and maintaining consumer trust.

Price Controls, Financial Resilience and Investment

Consumer representation in the price control processes

The focus of this section of the Cfl is on the mechanics and objectives of the price control process itself, however we think that the Review should also be considering what bodies are involved and in particular how consumer interests are represented. We note that the Review is considering the function of the role of the water statutory advocate but only in the context of complaints. We think that the Review should also look at the role that the statutory advocate plays within the Price Control process and how that process can be best structured to ensure that consumer interests are well balanced against those of suppliers and investors.

Price Controls (Q28-34)

Q29. How do you think the Price Review process should balance the need to keep customer bills low with the need for infrastructure resilience? (Infrastructure resilience is the ability of an organisation's infrastructure, and the skills to run that infrastructure, to avoid, cope with, and recover from disruption in its performance)

The Price Review process should identify activities that are in consumers' long-term interests and provide funding, at an efficient level, for that to be delivered. Separately, arrangements should be made to address affordability issues that may arise from this funding i.e. a well-designed social tariff.

Q30. What, if any, changes could be made to the Price Review process to better enable the water industry to deliver positive outcomes?

Addressing structural asymmetries

Changes are required to actively recognise and rebalance the inherent asymmetries between industry parties and those representing consumers interests. For economic regulators to protect consumers interests, consumer voices must be heard throughout the regulatory processes. Currently there is an imbalance between the strength of the industry voice versus the consumer voice:

- **Commercial interest.** Government and consumer bodies have a common public interest in ensuring companies are able to deliver good consumer outcomes in

an efficient way and with the right returns for investors (i.e. neither too high nor too low). In contrast, investors (and companies) have an unambiguous interest in the allowed cost of capital being as high as possible.

- **Resource asymmetry.** Companies have a considerable commercial incentive to invest resources (time, personnel, consultancy fees) into the regulatory process and have the financial ability to do so. Consumer advocates, on the other hand, are at a disadvantage with fewer financial and personnel resources to contribute to the process.
- **Process asymmetry.** The process also needs to better recognise these asymmetries throughout the whole regulatory process and take actions to redress the balance.

Ofgem, for example, has acknowledged these issues, stating that the network price control process results overall with a balance of risk which favours the networks³. This therefore comes at increased cost and risk to consumers.

Appeal process reform

This must include referrals to the CMA where only the regulated companies have effective rights meaning the appeals regime serves to worsen the situation, which is already skewed against the interests of consumers. In practice this would need other interested parties, such as statutory advocates, to have effective appeal rights which can be used without undue barriers and recognise the asymmetries in resources.

We believe that the current processes for appeals, across different sectors, do not work in the interests of consumers and that reform is needed.

This is for three main reasons:

- **Cherry picking.** Companies are able to effectively 'cherry-pick' which issues to appeal upon, whereas parties with contrary interests, i.e. consumers, do not have the same opportunity. This leads to a highly asymmetric process as only those matters where an appeal is expected favourable to the networks get brought to the CMA. This has the potential to lead to an overall outcome even more skewed against consumer interests. The view was acknowledged by government in its review of Economic Regulation where it is described as a "*behaviour... [which] can occur during the appeals process*"⁴.

³ Ofgem, [Open Letter: Future Systems and Network Regulation](#), September 2022

⁴ [Smarter Regulation: Strengthening the economic regulation of the energy, water and telecoms sectors: As regulated by Ofgem, Ofwat and Ofcom](#), page 62

We recognise there is a process in water to identify which issues the CMA will consider in a redetermination. In the PR19 water appeals, the CMA consulted stakeholders on which issues should be prioritised and deprioritised⁵. However, due to the structural asymmetries outlined above, we believe this is highly unlikely to fully rebalance the redetermination and the risk of ‘cherry-picking’ remains.

- The long shadow the appeals process casts. The appeals process, and the likelihood that only the regulated companies will appeal, has a detrimental effect on the decision making process within the price control itself.

We believe that regulators will consider the risk of successful appeals to the CMA when making decisions. In practice this means that regulators will tend to be generous to the companies as they are the parties most likely to appeal.

- A low risk game. ‘Cherry picking’ leads to appealing being a ‘free hit’ as it means the only risk companies are taking when appealing is the costs of running appeals (including costs awards). This will be relatively small, and predictable, when compared to the potential rewards from a successful, or even partially successful, appeal. Companies also only need to succeed in minor aspects of an appeal to get back more than the costs of the appeal.

Even if an appeal has a low probability of success, the upside for network companies by ensuring the regulator *believes* an appeal is likely when making the original decision will make appealing highly attractive. This is how regulatory appeals have become a routine and low-risk game that is played by companies. The effects of the appeals regime are felt throughout the whole regulatory price control process, increasing these unseen costs to consumers.

The reform that is needed

It is essential for consumers that the regulatory and appeal regime is reformed. As the scale of investment required increases, so will the costs to consumers of a regime that is unbalanced and does not suitably reflect consumer interest.

There are two key outcomes this review should deliver that are important for consumers:

⁵ [CMA approach to water redeterminations](#)

- Given the structural asymmetries we have outlined above, we believe that the regulatory process (including appeals) should be designed to rebalance this. Instead, the appeals process currently increases the overall asymmetry in favour of the companies and to the detriment of consumers.
- It is essential to reform appeals to reduce the incentive that exists to appeal regardless of the merits of the proposed case. The appeals process needs to be reformed to introduce a downside (beyond costs) to appealing. As described, there is currently an incentive for running highly speculative appeals. Appeal rights for non-network parties must also be *effective* appeal rights - ie that there are not undue barriers to using them.

We believe the different approaches to appeals, across water and energy, can be broken down into component parts (e.g. standard of review) and best practice in each element evaluated. These can then be packaged together. Whilst the overall result may be novel, we believe that this will be consistent with regulatory certainty and predictability as it will be built on familiar and existing ideas.

Using the water process as the starting point: once a company triggers the process, the CMA prioritises (and deprioritises) issues to arrive at what it takes forward. This will be done through a consultation, including with consumer advocates, that allows other stakeholders to raise issues. Then apply the energy standard of review (i.e. is the regulator 'wrong') rather than the CMA making a redetermination. To make this work, it requires the statutory advocate to be adequately resourced to contribute fully. To achieve this, the suggestion from the government review of Economic Regulation that *'to give the CMA the power to recover reasonable costs incurred by interveners'*⁶ should be taken forward.

Q33. What, if any, changes could be made to the Price Review Process on assessing and setting the Weighted Average Cost of Capital (WACC) to effectively attract investment in the water industry?

It is important for consumers that the water industry can make the required investments. However, we do not believe that 'aiming up' by allowing return on investment at the high-end of the estimated range is required to attract investment. The National Infrastructure Commission has previously outlined the risk to public confidence in the regulatory regime of providing generous returns when recommending using the low-end of ranges ('aiming off')⁷. Given the current lack of consumer trust in

⁶ [Smarter Regulation: Strengthening the economic regulation of the energy, water and telecoms sectors: As regulated by Ofgem, Ofwat and Ofcom](#), page 60

⁷ Recommendation 5, [Strategic Investment and Public Confidence](#)

the water sector, it is more important than ever to ensure that companies do not make excess returns as this may be viewed as rewards for failure.

Evidence regarding financial performance

Whilst there is evidence of operational underperformance during PR19, this does not support an expectation of financial underperformance for a number of reasons:

- The water sector has also benefitted from a windfall gain due to the impact of inflation on the operation of the price control. Citizens Advice has recently published evidence which analysed the windfall in the energy sector and estimated it to be in the order of £4bn⁸ within the current set of price controls. We estimate the equivalent windfall in the water sector⁹ to be of the order of £2bn¹⁰ for the first 4 years of the PR19 period. This windfall is not picked up in Ofwat's measure of regulatory return on equity (RoRE), as published in its Monitoring Financial Resilience reports, which track the financial performance of the sector.
- Notwithstanding, as explained above, company performance needs to be re-evaluated to capture the inflation windfall, we note that Ofwat has made a number of changes addressing these issues¹¹. For example:
 - Increased protection for costs the companies have limited control over, including energy which had a significant impact in PR19.
 - The introduction of an Outturn Adjustment Mechanism, specifically designed to mitigate against systematic out- or under- performance.
 - Relaxing the benchmarking related to Outcomes from upper quartile to median
- There is a read-across to energy CMA 2021 appeals around Ofgem's decision to implement a 0.25% reduction in cost of equity based on the assumption of outperformance (known as the 'outperformance wedge'). On that occasion, the CMA found '*...GEMA has not demonstrated sufficiently why the extensive set of tools it used for RIIO-2 should be regarded as providing insufficient protection for customers*'. Here, it has not been demonstrated why the actions that Ofwat has taken should be regarded as providing insufficient protection for companies.

⁸ [Debt to society](#), Citizens Advice, February 2025

⁹ Analysis based on company Annual Performance Reports (APR) and tables, with support from Ofwat

¹⁰ between 2020/21 and 2023/24, in year-end nominal prices

¹¹ Summarised on slide 14 [PR24 final determination City briefing](#)

- Arguments that price control settlements are skewed against companies should also be viewed in the context of historical performance. Due to structural advantages the companies have, compared to regulators and those representing consumer interests, it is reasonable to assume that settlements are likely to favour companies. These advantages include an information asymmetry which is made worse by the amount of resources, including the use of consultants, that companies can make use of. Citizens Advice has previously published analysis¹² of the extent of excess returns companies have made as a result of these structural advantages.
- There are limitations to the CAPM model, that is used to estimate cost of equity, that make it likely to overestimate. These are issues with how CAPM is implemented and used, including decisions around aiming up or off, rather than the model itself. We expand upon this in the below section.

Cost of equity

High cost of equity values are to be expected due to upward biases within the CAPM¹³ approach, as we have previously presented evidence to the CMA.

- Total Market Returns. Citizens Advice has consistently argued that TMR should represent all assets in the economy, rather than just UK equities. This includes within our submissions to the CMA RIIIO-2 Price Control appeal, which also provided evidence that indicated that long run (real) returns on all assets in the economy are likely to be appreciably lower than the corresponding long-run returns for equities. This is also unsurprising given that equities generally exhibit much greater systematic risk (i.e. correlation with macro-economic events) than all assets generally.

This argument was accepted by the CMA¹⁴: *'we agree with Citizens Advice's argument that, theoretically, the TMR should reflect the return on all assets in the economy, and that there is some evidence suggesting that total returns across all asset classes are lower than those on equities alone, and potentially materially lower.'* The CMA acknowledges potential practical implementation issues, but says that regulators should give 'careful consideration'.

- Short-term betas. We have also stated concerns with giving weighting to shorter-term betas. This is primarily because index-investing has an upward bias

¹² [Monopoly Money: How consumers overpaid by billions](#)

¹³ Capital Asset Pricing Model (as generally employed by UK regulators)

¹⁴ [Energy CMA 2021 appeals: Final Determinations Volume 2A](#), CMA, Para 5.200

on short-term betas. We explored this in our response to the UKRN consultation regarding cost of capital.¹⁵ The UKRN decision acknowledges this issue stating *‘that more research is needed to quantify the size of this distortion’*¹⁶.

Taken together the compromises made regarding TMR and equity betas mean the range for the cost of equity is structurally biased in favour of the companies and against the interests of consumers. We accept quantifying this bias is difficult; but it means that, when setting a spot estimate for the cost of equity, using the midpoint of the range, whilst making sense in theory, doesn’t hold in reality. In the real world, it represents ‘aiming up’. Explicitly aiming up on top of that, as Ofwat has done, is therefore highly likely to be generous.

Companies then aim to earn rewards on top of an already high cost of equity baseline. To address this, the National Infrastructure Commission (NIC) has previously recommended setting the cost of equity (and expenditure allowances) with the expectation that regulated companies will outperform targets and earn rewards built in - known as ‘aiming off’¹⁷. Such an approach should be considered when setting the WACC.

Investment (Q44-47)

Q45. How do financial returns in the water sector compare to other similar sectors (for example, energy)?

By comparing the energy sector, we believe the Ofwat cost of equity is generous to the companies. Taking the early view of cost of equity from RII03 Sector Specific Methodology Decision¹⁸, and recalculating on the basis of the 55% gearing level employed by Ofwat, this gives an Ofgem range of 4.2% - 5.8%. The PR24 value (5.1%) sits above the mid-point for this range.

Further evidence, including from recent transaction activity, is that this cost of equity is likely to be too high. In June 2022, Ofgem published a MAR inference model within its electricity distribution price control draft determination (ED2)¹⁹. Ofgem used this MAR

¹⁵ [“Citizens Advice response to UKRN guidance”](#), November 2022. Page 13.

¹⁶ [Guidance Consultation Issues and Taskforce Response](#), UKRN, March 2023

¹⁷ [“Strategic Investment and Public Confidence”](#), National Infrastructure Commission, Recommendation 5

¹⁸ [“RIIO-3 Sector Specific Methodology Decision - Finance Annex”](#), Ofgem, July 2024. Page 99

¹⁹ [“RIIO-ED2 Draft Determinations – Finance Annex”](#), Ofgem, June 2022. Page 181

model to infer a CoE from recent transactions involving monopoly network companies. Ofgem found that the transactions are consistent with a CoE range of 3.2% to 3.9%²⁰.

Applying Ofgem's MAR inference model to the recent transaction of ENWL²¹ in August 2024 suggests a potential real cost of equity between 3.06% and 4.11% depending on real RAV growth suggesting that returns in this sector are already too high and the difference between baseline allowed return on equity and real cost of equity has grown since Ofgem produced this analysis for ED2. Iberdrola have also said they paid a 44% premium for ENWL²² demonstrating that these companies are already highly attractive investments.

In May 2024 National Grid (NG) who own both Transmission and Distribution network companies in GB announced a £7billion Rights Issue (RI). They offered a 34.7% discount to the theoretical ex-rights price²³, within the average interval for UK companies²⁴. The offer had a 91% acceptance rate²⁵, within the average range for the UK²⁶. The RI was the largest one registered in the UK since 2009²⁷ and the issue was a part of NG's proposed investment strategy for the financial years of 2025 - 2029²⁸.

This was a remarkably successful RI with investors purchasing additional shares despite not being associated with clear investments, timings or returns as well as taking place ahead of Ofgem's RIIO-3 methodology decision in July 2024. This strongly indicates that Ofgem's existing cost of equity methodology is already providing exceptional attractiveness to investors.

²⁰ ["RIIO-ED2 Draft Determinations – Finance Annex"](#), Ofgem, June 2022. Page 44

²¹ Iberdrola, [Acquisition of Electricity North West](#), August 2024

²² Iberdrola, [Acquisition of Electricity North West](#), August 2024

²³ ["NG Announces Fully Underwritten £7bn Rights Issue"](#), NG, 7 April 2024.

²⁴ ["Encouraging Equity Investment"](#), Association of British Insurers, July 2013, page 36.

²⁵ [Results of rights issue](#), London Stock Exchange, June 2024

²⁶ ["RPC's Response to the UK Secondary Capital Raising Review Call for Evidence"](#), November 2021, page 6.

²⁷ ["Further Issues Summary"](#), London Stock Exchange, 31 July 2024, accessed September 2024.

²⁸ ["National Grid's Investment Proposition"](#), NG, May 2024.

Customer Bills and Smart Data

This section covers our response to questions 35 and 36 of the Call for Evidence. Our response focuses on the Commission's interest in the use of smart water meters and innovative water charging approaches such as rising block tariffs or other innovative tariffs. These are topics which we have explored through our work in the energy sector, in particular around the roll out of smart meters in that context. We have also looked at what the appropriate regulatory regime would be for retail energy suppliers in a world where there are more innovative tariffs which may require more careful understanding of customer needs to ensure that people are on tariffs which are suitable.

Smart Data

In energy, **smart metering** is playing a key role in reducing household consumption, the accuracy of bills and the prepayment experience while also enabling greater flexibility at a system level as well as enabling new tariffs and innovation within the market.

There have also been significant challenges for the smart meter rollout which have damaged faith in the technology and consumers interest in engaging with the products and services that it enables. Our recent report [Get Smarter](#) summarises many of these issues while proposing solutions. Key findings from that research include:

- 68% of people with smart meters are happy with them
- 20% of people with a smart meter reported having to regularly give manual meter readings to their supplier and more reported having to give them occasionally
- 31% of people have had issues with their In Home Display (IHD)
- IHD usage among people with smart meters has increased from 77% in 2018 to 87% in 2024 (likely in response to increased energy costs and a rise in flexible tariffs which require greater knowledge of when energy is being used)
- People who are unhappy with their smart meter are a third less likely to make use of smart-enabled products and services than those who are happy
- For those who were unhappy with the installation process nearly two thirds were less likely to access new products and services

A key recommendation of the report was the need for new guaranteed standards of performance for smart meters. Ofgem have launched a consultation into doing

precisely this, citing our findings. Though some challenges remain - particularly the “accountability gap” whereby issues that are due to the communications system run by the Data Communications Company (DCC) sit outside supply licence conditions or performance criteria. Meaning if an issue is deemed to be with the wireless communications no compensation will be paid and supplier obligations to operate meters in smart mode do not apply. The new consultation currently side-steps this significant issue but we will continue applying pressure to ensure it is resolved.

We are also working with DESNZ and Industry on a smart code of practice for customer service around smart covering everything from booking appointments to ongoing maintenance and support when things go wrong.

We’ve undertaken extensive work ensuring the smart in home displays (IHDs) are accessible by design - through usability research and work with the RNIB to ensure energy suppliers offer special accessible IHDs. We also recently worked with DESNZ to create new voluntary standards for replacing broken IHDs which all larger suppliers have now signed up to. We are now actively monitoring supplier performance against these and will advocate for stronger regulations if not all suppliers are adhering to the voluntary measures.

We have worked with the smart DCC to build the smart meter checker web tool - hosted on our website using a DCC-produced API through which we can access DCC-data flows following sign off from the Secretary of State to offer this service. The tool allows consumers to check the status of their smart meter and better understand if they will face issues when - for example - they switch supplier. We are currently working to improve the accuracy and detail of the tool by making modifications through the Smart Energy Code.

In addition to evidence from our consumer service and local Citizens Advice (LCAs) we also commission robust quantitative and qualitative research into the consumer experience of smart metering, building up significant technical expertise and credibility. We sit on the government’s key decision groups for the smart programme and its governance, often as the only consumer representative.

Outcomes based regulation in a world of product innovation

The Commission has highlighted an interest in tariff innovation in the water sector. In the retail energy sector, tariff innovation is being enabled by smart meters and the adoption of new technologies, such as home battery technology and electric vehicles. These products tend to be adopted by more affluent and engaged consumers, but

should benefit a wider group of households over time. However, for consumers to be confident to engage they need to be able to easily understand which products are right for them, and be assured that they will get the outcomes they are promised.

Outcomes-based regulation - like the Consumer Duty in financial services - can build consumer confidence, by requiring firms to offer products that meet consumer needs, and ensure that they deliver good outcomes and fair value on an ongoing basis. It can also remove the need for more prescriptive product regulations which can stifle innovative services. We strongly support this approach being adopted in energy²⁹, and it could also be valuable in water as new innovative tariffs emerge.

²⁹ [*Raising the bar*](#), Citizens Advice (2022)

Customer protections

This section covers our response to questions 37-40 of the Call for Evidence. The Commission's interest in these questions is on customer protection and support for vulnerable consumers.

- Ensuring that customer matters are investigated and, where necessary, enforcement action taken, to incentivise water companies to improve their service provision.
- Increasing the accountability of water companies' handling of complaints to drive an improved experience for customers.
- Introducing a single social tariff for England and Wales with the aim of providing a fair, consistent and sustainable support for customers who struggle to afford their water bill.
- Ensuring that water companies proactively offer support to customers who may be eligible.

Social Tariffs

This year, we've seen huge rises in water bills. A single social tariff should be introduced to shield the most financially vulnerable households from bill increases. We support the government's enabling legislation for this in the Water (Special Measures) Act, and think a social tariff should:

1. End the unfair postcode lottery of support that currently exists in the water market
2. Be designed with automation in mind to ensure available funding reaches consumers' pockets
3. Tackle water poverty as an outcome, while using eligibility criteria that are practical to implement at a national scale

Ending the postcode lottery

As things currently stand, the level of bill support consumers receive can vary significantly depending on where they live in the country. We reviewed what support one of our clients would receive under 2024/25 rates if they lived in three different postcodes in England.

Jerome is a single parent with one child, working part-time and receiving Universal Credit. His annual income is under £19,000 per year.

- In Portsmouth, his annual bill would have been capped at £91.12 per year.
- In Bradford, his annual bill would have been capped at £364 per year.
- In Liverpool, he would not have received any reduction. The average annual bill in this area was £481.

A single social tariff would address such unfair disparities and ensure that people in the same financial circumstances receive an equitable level of support. Depending on whether the scheme is designed with a flat discount or a percentage discount in mind, the amount of bill support people receive may vary across the country because of the variation in level of bills. However, care should be taken to ensure that a limited funding pot is not disproportionately weighted towards suppliers with higher bills, at the expense of providing a generous level of support for the rest of the country.

Design with automation in mind

Even the best-designed social tariff will not succeed unless it actually reaches the people who need it. Current uptake of water support schemes is low. Our recent research, [*Barriers to Access*](#), found that:

- Awareness remains low – almost three quarters of water bill payers we polled (73%) said they hadn't heard of water social tariffs.³⁰
- Provider signposting to support is inconsistent – two out of five (39%) people who fell behind on their water bills were not signposted to a social tariff.³¹
- When clients do make it to sign-up, some water companies have long application forms and onerous requirements to prove eligibility.

Automation offers a powerful solution to these barriers. It would also particularly benefit people in vulnerable circumstances—as people who are digitally excluded, have English as an additional language, experience mental health issues, or are experiencing significant stress or difficulty in their lives are all disproportionately impacted by having to jump through multiple hoops to access social tariffs.

The Warm Home Discount provides an excellent example of how well this can work. In the Energy sector, [92% of awards](#) to households eligible for the Warm Home Discount

³⁰ Nationally representative online survey of UK adults conducted for Citizens Advice by Yonder Data Solutions with a total sample size of 3,279. Fieldwork was conducted between the 27th and 30th of January 2025.

³¹ Citizens Advice (2025) [Barriers to Access](#).

are made automatically through data matching in England & Wales. We support a similar design in water with a central data matching system. For that to work, **automation must be a central consideration throughout the design stage, not an afterthought.**

This means choosing an eligibility criteria which effectively targets support, while remaining operationalisable. For example, an eligibility criteria that targets water poverty based on equivalised household income after housing costs will be very precise but difficult to automate, as usable data on household composition and housing costs doesn't exist for everyone, even those on benefits. Proxies, such as the Local Housing Allowance, could be used for housing costs but this is exactly the type of detail which would need to be set out by Defra within the design of the tariff. We are not aware of any suitable proxy for housing composition and would suggest that this is not used as part of the eligibility criteria, especially noting that the WaterSure already caters for large households.

This does not mean that everyone eligible for the scheme must be automatically enrolled. We recognise that there are a significant group of people not on means-tested benefits, who should be eligible for support. There will need to be a manual sign-up route for this group, as the government does not have usable data on their income – although this may change in future as data sharing opportunities open up especially around HMRC data. However, we consider that the correct test for now should be that **those receiving means-tested benefits who are also eligible for a single social tariff should be able to receive that support without having to make an application, to maximise uptake.**

Water poverty as an outcome, not a criteria

The aim of a single social tariff is to reduce water poverty, but this does not mean the eligibility criteria needs to mirror water poverty exactly. For instance, the Warm Home Discount scheme aims to reduce fuel poverty but [eligibility criteria in 2024/25](#) was based on a combination of benefits receipt and data suggesting that their property is likely to have high energy use requirements. It is instructive to note that the eligibility guidance sets from Desnz sets out an explanation of how the criteria selected each year aim to iteratively improve on targeting support on fuel poverty, but the criteria themselves are clearly determined by the operational process of data matching and automation. The water sector should not start from scratch but follow the lessons learned and approach from energy.

There is already broad support in the water sector for using water poverty as a guiding aim, and we don't suggest moving away from that. At Citizens Advice, we assess clients'

finances holistically, using negative budgets as a key indicator, which looks at whether someone's essential costs exceed their income. In our analysis, half of our clients in negative budgets are in 3% water poverty, while a quarter are in 5% water poverty.³² On the other hand, people in 5% water poverty are more likely to be in a negative budget, so the measure is better targeted in that respect. **We conclude that it is better to use multiple definitions of water poverty (eg 3% and 5%) to deliver support to a significant number of people struggling with affordability.**

While there is a significant overlap between negative budgets and water poverty, **we should avoid becoming fixated on targeting water poverty too precisely**, if doing so creates a scheme that is impossible to automate. Sacrificing uptake levels in the name of trying to better target an artificial proxy of affordability would undermine the very goal of reducing water poverty, and the Warm Home Discount shows it is possible to achieve a good level of targeting and automate a national bill support scheme.

Priority Services Register (PSR)

The role of the PSR is to provide priority support to consumers with additional needs in the event of an outage. Support is also provided in a more everyday context under the PSR (e.g. the translation of bills for consumers who speak English as a second language) but the extent of support varies between suppliers.

We know that the PSR is not well targeted. Our research shows that when taking into account variation across networks and geographical areas, between 30% and 70% of eligible consumers are registered on their energy network's PSR³³. This same research also looked at awareness levels, finding that only 1 in 3 people are aware of the PSR. Given that awareness is generally low, suppliers cannot confidently rely on consumers to self-identify as vulnerable - which Ofgem's recent consultation on its Consumer Vulnerability Strategy³⁴ recognised they almost solely do. We encourage suppliers to adopt a more proactive approach to identifying vulnerability, and believe the onus lies with suppliers to instigate such processes.

More transient changes in circumstances (like those caused by bereavement or divorce) are less likely to be captured under the current system unless consumers prompt such conversations. We recently advocated for a more accessible PSR³⁵, one that allows consumers to update their circumstances as and when their support needs change. In

³² Internal analysis of Citizens Advice debt advice data, available on request.

³³ Citizens Advice (2023) [Closing the gap: How to improve customer support in essential services](#)

³⁴ Ofgem (2024) [Refreshing our Consumer Vulnerability Strategy](#)

³⁵ Citizens Advice (2024) [Response to Ofgem's 'Refreshing our Consumer Vulnerability Strategy'](#)

this response, we also called for a better maintained PSR - with suppliers adding and removing consumers from the register as necessary. Shifting focus away from quantity to quality will ensure the register is reflective of current needs and support is well targeted.

Ofgem had committed to a review of the PSR in energy, which has since been paused. We still feel a review is necessary to address issues in the current system around identification, targeting and accessibility.

We have long supported the development of a multi-sector approach to the PSR, which we feel should be led by Government with mandatory participation across essential services. There are considerable steps that need to be taken ahead of its rollout, particularly around data protection. The multi-sector PSR will likely require bespoke safeguards, given that the use of this data may constitute a 'threat to life' risk and potentially bypass GDPR. Additional protections to ensure data is not used for malicious purposes (such as the informing of credit scores) may need to be implemented. The digital infrastructure required for this initiative will also need to enable automated (and seamless) data-sharing, given that reliance on manual input will increase scope for errors.³⁶

We were disappointed to learn that work on the MSPSR is being paused by Ofgem. Pausing this work will only delay such steps and in turn, delay the rollout of the initiative, which could prove transformative for consumers who find themselves having to repeatedly identify as vulnerable across all essential services.

The initiative represents a positive step towards addressing some of the issues seen in the existing PSR, particularly around the identification of vulnerability. Given this decision, we further emphasise the need for interim action by suppliers to better identify needs within their networks - working collaboratively wherever possible, sharing best practice, utilising available data sources to better understand consumer bases and in turn, reduce reliance on self-identification.

Complaints Assessment

In the energy retail sector, Citizens Advice delivers on the statutory requirement to publish information about energy supplier complaints performance through the [Citizens Advice Star Rating](#), and separately through the [non-domestic League Table](#).

³⁶ [*Getting support to those who need it: how to improve consumer support in essential services*](#), Citizens Advice, 2020

The Star Rating provides an independent, outcomes-based assessment of the performance of energy suppliers across metrics including complaints, contact ease, and customer commitments. The trusted status of Citizens Advice means that companies are incentivised to compete against each other in delivering on outcomes which make a material difference to the experience of their customers, and which have disproportionate benefits for vulnerable consumers.

Partly as a result of this competition, and partly due to dedicated improvements by energy suppliers to their customer performance, the Star Rating has driven and measured [improvements across the energy market in recent years](#), as complaints have fallen and contact ease has improved. While there is further to go in terms of making the Rating fit for the future, particularly in terms of how it approaches the Net Zero transition, the Star Rating shows the dramatic improvements which can be made for customers through the publication of complaints performance.

Trust

Building trust in the water sector is predicated on consumers understanding their entitlements, the levels of service they should receive and their redress. Consumer trust in any sector will be determined by both their personal experience and wider perceptions, often shaped by the media and their knowledge of enforcement. To that end the role of the statutory advocate is paramount in creating a through-line from consumers to providers.

At Citizens Advice our experience as a statutory advocate in the consumer and energy sectors has shown us that the combination of effective advocacy and independent advice helps people to understand their entitlements and equips them to better navigate the provider market. That consumer resilience and confidence leads them to demand high standards and hold providers to account, engendering trust through seeing positive responses in provider behaviours and deliverables.

In addition, consumers need to know and trust the brand that advocates on their behalf; to be assured of their independence and effectiveness to work unhindered with all partners in that sector. For example, in Citizens Advice's role as consumer advocate 78% of consumers surveyed were satisfied or very satisfied with the services we provide and 93% of partners were satisfied or very satisfied with our work. Furthermore, 92% of people are aware of our brand. This level of cross-stakeholder trust in the advocacy and advice space, and its positive impact on provider behaviour, helps to build the wider trust in the sector.