
Customer protection in a retail market: Guaranteed Standards Scheme – progress update

About this document

This document updates stakeholders on the development of Ofwat's recommendation to the Secretary of State and Welsh Ministers on new Guaranteed Standards Scheme (GSS) Regulations in order to take account of the new non-household retail water and wastewater market in England opening in April 2017.

Background

The new non-household retail water and wastewater market

The [Water Act 2014](#) will allow 1.2 million businesses and other non-household customers mainly in England to choose their supplier of water and wastewater retail services from April 2017. Retail services include things like billing and customer services.

The retail market reforms will not apply to non-household customers of companies whose area is wholly or mainly in Wales. In these areas, the proposals set out in this document affect only the largest non-household customers (those that use at least 50 million litres of water a year). The arrangements that are currently in place for these customers to choose their water supplier will continue unchanged.

Eligible customers that are able to shop around for their water retailer. In doing so they can benefit from lower prices, consolidated water bills, higher standards and more tailored services, for example in relation to water saving advice. The cost of introducing competition, which companies will not be able to pass on to customers, is estimated to deliver a net benefit of around £200 million to the UK.

Experience shows that the benefits delivered by markets increase as those markets mature over time. Customers may need time to understand the new market and its benefits before they are confident enough to change their water retailer– so, for example, we may not see high rates of switching overnight. Equally, companies

need to recognise the possibilities and make the necessary commercial and cultural changes to take part and succeed in the new market – and some fail, while others succeed. Effective competition will mean that companies that are able to meet customers' high expectations will gain market share from those that are not.

The UK Government (Defra), economic regulator (Ofwat) and potential market operator, Market Operator Services Limited (MOSL), are working together closely to deliver the programme of work ('Open Water') to open the market, drawing on the experience in Scotland, which opened its market in 2008.

Work to open the market is on track for April 2017 and within budget. An important part of this work is making sure that customers are suitably protected, so that the new retail market operates effectively and in the best interests of customers. We explained in '[IN 15/12: Opening a new retail market for non-household customers – protecting customers](#)' that one part of the programme of work on customer protection arrangements has been a review of the GSS.

In September 2015, we published our '[Customer protection in a retail market: Guaranteed Standards Scheme – a consultation](#)' document which proposed that new GSS Regulations continue to apply to customers of appointed companies and also applies to customers of retailers who successfully apply for the new Water and Sewerage Supply Licence (WSSL). This would mean that the GSS Regulations cover all non-household customers in the new non-household retail market (except for customers who opt to self-supply).

Guaranteed standards scheme

All customers of appointed companies are entitled to guaranteed minimum standards of service, through the GSS. This is laid down by the UK Government in [the Water Supply and Sewerage Services \(Customer Service Standards\) Regulations 2008](#) (the GSS Regulations).

These include standards that cover aspects of service such as:

- the making and keeping of appointments
- notice of interruption of supply;
- pressure standards;
- sewer flooding; and
- complaint handling.

The GSS Regulations apply to all customers (both household and non-household) of appointed water only, and water and sewerage, companies. Details of the service

standards and the payments that appointed companies must make if they do not meet these service standards are set out in on the Ofwat website¹ Where an appointed company fails to meet any of the standards, subject to certain exceptions detailed in the GSS Regulations, it is required to make a specific payment to the affected customer(s).

Currently, the GSS Regulations only apply to the appointed companies, and not to existing retailers licensed under the water supply licensing (WSL) framework or future WSSL retailers. So, unless new GSS Regulations are made, any eligible non-household customer wishing to exploit the benefits of retail competition by switching to a different retailer will not be entitled to these guaranteed minimum standards.

Customer protection

At the heart of our role is our statutory duty to protect the interests of consumers, wherever appropriate by promoting effective competition. This role is particularly important for us in relation to the opening of new retail markets, where the companies we regulate engage directly with customers, the vast majority of which have not had the opportunity to engage with the competitive market before.

So, we need to balance carefully the promotion of competition with the need to ensure that customers remain adequately protected. The best way to protect customers in the new retail market is to make sure that the market arrangements are effective, with high levels of competition, innovation and rivalry among retailers, as well as avoiding unnecessary or onerous burdens on retailers and removing any undue barriers to entry or expansion.

Effective competition requires customers to be able to switch freely or negotiate better deals. Making sure that a customer can choose a different retail supplier and switch to them in a simple and timely fashion provides customers with the ability to negotiate the range and quality of services that they want, at the best possible price. Maintaining existing GSS protections, and having sufficient protection in place for those customers that choose not to switch retail supplier, or those that are allocated to a retailer if, for example, their existing supplier leaves the market, will best help to

¹ Ofwat customer webpage, [Standards of services](#)

maintain the trust and confidence of customers in line with our new strategy – ‘Trust in water’.

Update

Feedback

We received significant and constructive feedback to our proposals set out in ‘Customer protection in a retail market: Guaranteed Standards Scheme – a consultation’. This was from:

- formal written responses to the consultation; and
- feedback in the stakeholder workshop held on 22 September 2015.

We are continuing to assess these responses and will engage with [Market Operator Services Limited](#) (MOSL) on any implications this feedback has for the market codes.

Summary of responses

Respondents have supported our proposal to ensure that the GSS will cover all licensed retailers as well as appointed companies. We continue to believe that ensuring all non-household customers are entitled to protection under the GSS is the appropriate approach to take at this time to achieve the objectives set out in that consultation. So, while further work is being carried out on some areas of feedback, the final outcome is unlikely to vary significantly from what we proposed in the consultation.

In our consultation, we included an allocation of each GSS to either the wholesaler or retailer and that was intended to formalise the obligations on each GSS in the new market structure. We also outlined potentially using the wholesale–retail code to govern the operational processes and arrangements required to deliver the GSS effectively.

There was general agreement with the principle of allocating each of the service standards to either wholesale or retail – and there was broad support for the use of a code-based approach, in particular to ensure clarity for market participants and customers. However, there was a significant desire for further clarity around how this would work in practice, especially in areas where there may be a function for both the wholesaler and retailer in particular circumstances where a breach of GSS has occurred.

We acknowledge that our initial allocation of the GSS to wholesale or retail was overly simplistic. We have therefore reviewed and are refining these allocations in response to the feedback received by stakeholders. We continue to believe that the wholesale–retail code and wholesale contract should include the necessary provisions to support the GSS by clearly stating the obligations on wholesalers and retailers in the new market, and to govern the process for GSS payments and information flows between wholesalers and retailers.

Following the submission of our formal recommendation to the Secretary of State and Welsh Ministers, Ofwat intends to continue its engagement with industry and MOSL to ensure that these complexities are captured within the wholesale–retail code and wholesale contract.

Other items were raised as part of the consultation process and Ofwat’s response to these will be included when we publish our final recommendation.

Engagement to date

The formal consultation process produced feedback on our initial proposals that suggested that further work was required to ensure the complexities of the retailer and wholesaler relationship can be captured in the wholesale–retail code and wholesale contract.

We carried out two stakeholder workshops and bilateral conversations with a range of stakeholders between August and October 2015. These stakeholders included:

- the Water Industry Commission for Scotland (WICS) – 7 September 2015;
- Castle Water – 6 October 2015;
- the Consumer Council for Water (CCWater) – 27 August 2015; and
- the Federation of Small Businesses (FSB) – 21 September 2015.

Next steps

We aim to publish the final consultation conclusions and make our final recommendations by the end of March 2016

We will work with MOSL, other stakeholders and the interim code panel to review and update the draft wholesale–retail code and contract so that they will effectively underpin the new GSS arrangements if Defra and/or the Welsh Government make new regulations extending the GSS to WSSL retailers.

Further information

If you have any questions about this process, or this document, please feel free to contact us using the details provided below:

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