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7th September 2018

Dear Sirs

Call for evidence consultation – Guaranteed Standards Scheme

Thank you for providing us with the opportunity to comment on the call for evidence in respect of Guaranteed Standards of Service (GSS). We have split our response into two parts. Firstly, we provide our general comments in respect of the issues raised and secondly set out our response to each of the questions included in the consultation paper.

General comments and observations

We acknowledge the points raised in the consultation that the current GSS arrangements may not be reflective of the impact on customers of being without water for a prolonged period. We welcome this consultation and the opportunity to contribute to a review that will consider the merit and potential for revisions to the existing GSS arrangements. We note particularly that the existing arrangements and compensation payments have not been inflated since 2001 and that it is timely that a review is now underway.

Consultation questions – Arrangements for when supply is not restored

1. Adjusting the levels of compensation for supply not being restored under the GSS arrangements.

a) Should the levels of compensation for supply not being restored under the GSS arrangements be maintained or increased?

Any change to the minimum level of compensation payments paid for supply not being restored should be based on a thorough analysis of customer valuation and should consider the level of the existing bill. While we can see the argument that GSS should be uniform across all companies and customers, as it is a minimum standard, we believe any revision should reflect company circumstances.

More generally we believe any proposed change should be benchmarked to understand how the proposed level of compensation compares to the average annual bill.

b) Could an increase in the minimum level result in companies paying less compensation to customers than they currently do by encouraging them to not exceed a higher minimum? If so, how could this be addressed?

Our experience is based on our continuing commitment to meet our AMP6 PCs to pay enhanced GSS of £50 to households for planned interruptions not notified and planned interruptions not restored in time. We consider that it would be unlikely that a company would seek to pay less compensation to customers in future because of any revision to the GSS minimum standards. We would advocate a continued ongoing role for companies' CCG's, in conjunction with CCW, to work closely with companies to review any proposals the company might be considering to amend their enhanced compensation arrangements.

2. Payment thresholds and exemptions for supply not being restored.

a) Should these thresholds be changed in any way (e.g. brought forward, reduce the length of time between graduations)? If so, how and why?

We don't see there is a case for changing the time thresholds for triggering payments.

b) Should compensation increase by a larger amount the longer disruption lasts (i.e. exponential)?

We do not believe any revised GSS should be prescriptive around length of disruption. We believe that companies should seek to retain a degree of flexibility around service failure compensation. Currently factors such as length of disruption are considered by companies on a case by case basis. Certainly, we took account of length, timing and frequency of interruption when determining compensation payments following the freeze thaw event earlier in the year.

c) Should there be any changes made to the current exemptions to the GSS for supply not being restored?

We support removing the exception relating to interruptions arising from industrial action by own employees as this is within management control. We otherwise, support maintaining current exceptions.

3. Other areas to consider relating to compensation for supply not being restored.

a) Should GSS be expanded beyond supply interruptions to cover supply restrictions, such as temporary use bans?

Water companies must already reduce charges made for uses prohibited under a Temporary Use Ban (TUB) (Section 76(6) of the 1991 Act). For example, a charge made for a sprinkler licence for garden watering. We do not agree that, in addition to refunding such charges, there is a case for compensation to be paid, as the service would not have been paid for. Our current and future levels of service are predicated on the use and implementation of TUBs and we have not included in the existing cost of service, and hence customer bills, the costs of seeking to maintain services without any use of a TUB.

b) Are there any other changes to the arrangements we should consider relating to payments for supply not being restored to ensure that customers receive fair, fast and free from hassle compensation?

Under Regulations 17E and 17F, compensation for supply interruptions is payable only when the water company disconnects or otherwise cuts off the water supply to premises to carry out necessary works (Section 60(1) of the 1991 Act). We recommend that this pre-requisite is removed

so that compensation is payable for all types of supply interruptions, subject to applicable exceptions.

Consultation questions – Arrangements for all payments under GSS

4. Adjusting all payments under the GSS by inflation.

a) All payments could be increased by inflation retrospectively from 2001 when the levels of compensation were last changed. Would this approach be reasonable and proportionate?

In principle we accept that all payments should be adjusted to account for inflation each year and that consideration should be given to a one-off adjustment to retrospectively adjust minimum payment levels from the levels in place in 2001. However, we also believe that any potential retrospective adjustment should consider the level of minimum payment in 2001 compared to the level of the average bill at the time. If during the period since 2001 bills have fallen in real terms, then a simple single retrospective adjustment could significantly impact the relative value of the minimum compensation payments relative to the average bill.

b) All payments could be price inflated automatically in future. Would this approach be reasonable and proportionate?

This approach seems reasonable and proportionate, subject to 4 a) above,

5. GSS arrangements for different types of customers.

a) Should the arrangements differentiate between compensation for businesses of different sizes (e.g. big businesses and SMEs)? If so, what approaches could be adopted in order to do differentiate fairly?

We cannot see a good reason for differentiating GSS payments for SME to those for other businesses. In any case, it would likely be administratively difficult where the compensation payment is payable by the wholesaler but the information about the end-customer is held by the retailer (who may not know whether their customer is an SME).

b) Should there be different compensation arrangements for customers in vulnerable circumstances? If so, what approaches could be adopted in order to do differentiate fairly?

It is difficult to see why customers in vulnerable circumstances should receive different compensation arrangements (it isn't clear from the consultation whether this means higher amounts of compensation or different circumstance in which compensation would be paid). It would likely be difficult to administer different arrangements. Regardless, during events such as supply interruptions we have already provide significantly enhanced services to customers in vulnerable circumstances to ensure any service impact is minimised as far as possible.

6. Are there any other changes to the arrangements we should consider relating to all compensation payments under the GSS to ensure that customers receive fair, fast and free from hassle compensation?

As outlined earlier we believe that compensation should be set as a percentage of the average household bill for each company so that those customers who pay more for their service get a



higher amount of compensation than those customers who pay less. This would help to provide a link between the bill and the value of the service foregone as a proportion of the bill. Part of this assessment should also explicitly consider customer valuation and the overall size of the annual bill compared to level of compensation payment.

Finally, we have also considered how it could be possible to bring the GSS compensation regime more closely in line with the ODI regime. One such approach could replace GSS altogether with a standard ODI that involves direct payments to interrupted customers. This is one of the few ODIs where it is practical for companies to make compensation payments directly to the affected customers, rather than the generality of customers.

By using the ODI regime, rather than GSS payments, it would allow for compensation amounts to be changed as customer preferences change, and also easily allows for the effects of inflation to be accounted for. For example, you could propose that the new compensation payments reflect the common ODI that Ofwat is introducing for AMP7. All customers interrupted for more than three hours should be compensated directly by the company that serves them. Companies already know the properties affected as they need to count properties to report supply interruptions, so there would not be a major administrative burden added by this requirement.

We believe that this kind of regime would enhance the overall reputation of the sector, enhance trust and confidence, and be fairer to interrupted customers.

If you have any questions regarding our response, please do not hesitate to contact me.

Yours sincerely

Head of Economic Regulation
Affinity Water