

Call for evidence consultation – Guaranteed Standards Scheme (GSS)

By email: [GSS.Consultation@ofwat.gsi.gov.uk](mailto:GSS.Consultation@ofwat.gsi.gov.uk)

6<sup>th</sup> September 2018

Dear Freddie,

Thank you for the invitation to comment on your consultation regarding the Guaranteed Standards Scheme (GSS). We agree that it is timely to review the compensation that is offered to customers and have considered our customer's views and response to GSS in our answers.

We have provided responses under the questions asked below.

**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?**

We agree that the level of GSS should be reviewed. We considered whether an uplift in line with the c.40% inflation was sufficient, or what other approaches would improve customer confidence in the compensation arrangements. We see great benefits from a simple, standardised approach, and the potential for a single level of compensation to apply to all of the GSS categories. Therefore we propose standardising all the amounts described in A1 of the consultation paper to £25. This amount would be easier to communicate to customers as an equal amount for all types of compensation. This has been considered the amount in relation to our insight from our revealed preference research which was undertaken in 2017, see the case study below.

**Case study – revealed preference**

We conducted revealed preference research in the summer of 2017 with customers who had been affected by three recent supply interruptions, asking customers about the actions they had to take as a result of them losing water supply.

Customers were asked how much they, and their household or business, spent on activities such as eating out and drinking an alternative to tap water and how they travelled to buy water or use alternative water facilities.

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This enabled us to calculate the costs incurred by each affected customer based on the actions they took and the cost of travelling averaged across all respondents to estimate an average cost of the interruption.

The study surveyed customers affected by significant interruptions to their supply including:

- A 5 hour interruption in Whitchurch on 27<sup>th</sup> April 2017.
- A 6 to 32 hour interruption (depending on location) in Shirehampton, starting 27<sup>th</sup> May 2017.
- A 6 to 24 hour interruption (depending on location) in Willsbridge on the 29<sup>th</sup> July 2017.

Customers spent £12.31 on average due to the supply interruption. While a large share of customers purchased additional bottled water, the cost of this category accounted for less than 20% of total cost. Food and drink accounted for almost three quarters of total cost, while expenditure on other activities (e.g. shower facilities and personal hygiene products) was relatively small (8 % of total cost). Across all activities, travel cost accounts for a relatively small proportion of costs incurred (approximately 20% on average).

The values from our revealed preference research have been considered alongside those from stated preference and reconciled using our triangulation process.

The learning points from these incidents have also reshaped our Alternative Water Supply (AWS) provision, which is now deployed earlier in shorter interruptions. Vulnerable customers now often receive bottled water supplies before they are aware of the interruption. Temporary supply locations now form an earlier stage of our incident planning, on a precautionary basis.

Our future plans will minimise such events, but our network knowledge and community relationships mean we can provide a resilient response in any event.

**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?**

Enhancing GSS payments is a separate consideration by companies and is individual to each company and the strategies that they have in place to maintain a high customer satisfaction level. We do not believe that changing the GSS payments will have a significant

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impact on their decisions on how to do this, whether through standard policies, ex-gratia compensation or other routes. The flexibility allows companies to reflect the situation they are faced with, with the GSS levels being a standard, minimum approach. This includes late payment and business customer GSS levels.

We believe that GSS is in place to provide a minimum, fair level of compensation to all customers and any additional payments are above and beyond that.

## **2. Payment threshold and exemptions for supply not being restored**

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

We have considered the payment thresholds for supply not being restored and we think that customers should receive a higher amount for consecutive 24 hour periods that they do now but that this would remain a flat amount, at our suggested £25 per 24 period.

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

We believe the next £25 would be required to be paid as soon as the next 24 hour time period commences.

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

The exemptions to this have been reviewed and we believe it is right for the customers to remove the exemption to the severe weather. This is part of operational resilience. We have considered whether it would be in customers' interest to remove the separate classification of strategic supply from other mains. We think it is important to retain this distinction, recognising the potential for unexpected circumstances outside of a company control on a main that supplies a wide population area is different to more isolated problems. The distinction avoids wider exemptions for third party impacts which would be less clear than the distinction of a strategic main. The principle is to avoid a new risk that could either allow the potential cost to be used as a lever (e.g. industrial action). Therefore other than severe weather, we believe the other exemptions are still justified. For strategic mains, the change in GSS would imply a different level of risk and investment to be required, which therefore may not be within customers' own risk appetite. The legal requirements for alternative water supply provision are the main priority for such exceptional circumstances, and ultimately Ofwat can take action if there are a pattern of strategic bursts that suggest customers' interests are not being protected by a company managing these risks.

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

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

We do not believe there is a need to expand the GSS. Hosepipe bans represent a defined level of service within Water Resource Management Plans, that reflects balancing risk in dry spells, in advance of worse action being required should the weather situation not improve, that sees risk shared between companies, customers and the environment in a planned way. Introducing compensation through GSS would change this balance of risk, and therefore the planning of this.

**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?**

To enable customers a fair, fast and hassle free service we think we should consider alternative ways to make the payment. Providing a cheque, whilst it has benefits does cause delays to the customer, both in terms of receiving the payment and for the cheque to be cashed. This is likely to get more difficult going forward as cheques continue to be used less.

Making a credit to the account would be quicker for the customer, we appreciate that it is not a physical payment for poor service but it may be worth considering it as an alternative when many customers and business are moving away from cheques.

The other consideration is to pay via a BACS transfer for those customers we do have the details for and pay the remainder by cheque.

**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?**

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

We do not recommend annual inflation as this would result in less clear compensation amounts. We suggest a periodic review (possibly every 10 years), keeping it simple and rounded would be easier for customers to understand. The circumstances (e.g. changes in the markets, technology, performance) that may drive reviews, could allow for more frequent update, with 10 years as a fall-back position, given that with CPI inflation it may be c15 years before a further £5 increase in inflation compensation would be triggered

**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?**

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Larger companies often have alternative supplies because of the criticality of water to their activities and the cost for loss of business, if any, needs to be considered separately. For smaller businesses, water supplies can be more critical, but there is no “one size fits all” pattern and individual needs are considered through Alternative Water Supply (AWS) and vulnerability. The distinction within GSS compensation should not be seen as reflecting either of these issues, and therefore we prefer a simple, clear, GSS arrangement.

**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**

We have considered our different vulnerable customer groups and believe that the solution to delivering excellent customer service in this situation is not a different GSS payment, but to address all of their needs through our AWS process. Being without water can make life incredibly difficult for our customers who already need extra support and the best solution is to get them the water that they need as quickly as possible.

For customers on low income, offering them AWS as quickly as possible so they do not have to buy bottled water is our priority.

We also considered rural and urban customers, from our experience the urban customers can find AWS harder to reach as the population density is more and therefore it can be harder to get the water to those who need it more quickly. Rural customers can be easier to serve in this situation. For compensation therefore, we think consistency is fair, and is the point of GSS rather than directly reflecting a customer specific value. As we show earlier, the cost of an interruption is lower than current GSS levels, so is not the primary consideration.

**6. 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?**

We have covered this in 3.b. We recognise that the requirement to physically make the payment is currently a potential constraint that results in cheques being used. We would be keen to see discussion about whether the guidance could allow for accounts to be credited as an alternative to payment, within the current guidelines, recognising there may be a range of views on this topic.

We would have liked to consult with the Bristol Water Challenge Panel and our local CCWater contacts on this topic, which unfortunately has not been possible for the call for evidence stage. We would like the opportunity to discuss with them and we will consider carefully other views raised in the call for evidence stage before we do so. We would therefore welcome a recommendation of a further consultation by the Governments as a next step.

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Please contact us if you have any further queries on the above comments.

Yours sincerely

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