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GSS Consultation  
Ofwat  
21 Bloomsbury Street  
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By Email Only

Dear Ofwat

### **Consultation on the Guaranteed Standards Scheme**

Thank you for the opportunity to provide evidence to your review of the Guaranteed Standards Scheme and in particular the review of the “supply not restored” standard.

We consider that there are some meaningful changes that can be made to current arrangements to simplify them, make sure that customers remain protected and provide arrangements that are fit for the future.

Our one concern in relation to potential changes is the interaction with the outcomes framework and we would welcome further consideration by Ofwat of how GSS compensation payments interact with the underperformance penalties paid through this framework. Our response to each question is in Appendix 1.

Please contact [REDACTED] if you would like to discuss anything further. We will also be attending your planned workshop on 18 September.

Yours faithfully

[REDACTED]  
Finance and Regulation Director



## Appendix 1 – response to questions

### **Q1a: Should the levels of compensation for supply not being restored under the GSS arrangements be maintained or increased?**

There is no robust means by which to transparently calculate what the right compensation payment should be to a customer for loss of supply. Therefore it is not possible for us to either robustly defend the current level of payment, or to argue for an alternative level. However, we know from our own research that customers find interruptions to supply inconvenient and reducing incidents and the length of incidents if they happen is one of our customers' top priorities.

A balance must however be found between the compensation payments available through GSS arrangements and the compensation paid through the outcomes framework and the resulting penalties under the outcome delivery framework. A significant increase in the GSS payments combined with the significant increase in compensation that we are offering through the outcomes framework as part of our Business Plan risks disproportionality penalising us. If GSS payments are increased Ofwat must consider whether it is appropriate for supply interruptions to also be financially incentivised through the outcomes framework.

Our preference is for:

- The current level to be broadly maintained, with the impact of inflation taken into account (see response to question 4b)
- Removal of the exemptions (see our response to question 2c)
- Keeping the current flexibility which allows for companies to make voluntary payments where the particular circumstances of the event and its impact can be locally evaluated.

We consider that this strikes an appropriate balance by improving clarity for our customers on how the GSS arrangements are applied, maintaining a strong incentive for us to minimise the frequency and impact of events, and ensuring that customers are still compensated even if the cause may have been outside of our direct control.

### **Q1b: 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?**

We are unclear how to interpret this question. We make every effort available to us to restore supply in the event that a customer experiences an interruption. This approach is independent of considering the cost of resolution against the cost of potential GSS compensation. The stronger driver for our approach is the need to maintain the highest level of customer service and the reputational damage that is done if we do not meet our customers' expectations.

### **Q2a: Should these thresholds be changed in any way (e.g. brought forward, reduce the length of time between graduations)? If so, how and why?**

As we explain in response to question 2c, customers don't want us to make excuses for interruptions based on what caused them. We therefore advocate simplifying the current approach and having consistent thresholds irrespective of the cause. We suggest that the threshold is set at 24 hours for all scenarios that result in supply interruptions, noting that the majority of interruptions are due to leaks or bursts and therefore this is lowering the threshold at which compensation would be paid.

**Q2b: Should compensation increase by a larger amount the longer disruption lasts (i.e. exponential)?**

We suggest that, for every additional 24 hours that a customer remains without supply, they receive the same payment again. This is again a proposed increase in the compensation that would be paid.

**Q2c: Should there be any changes made to the current exemptions to the GSS for supply not being restored?**

In our customers' eyes the reason they are being inconvenienced for a loss of supply that has met the trigger point for GSS compensation is irrelevant. Therefore we consider that customers should be compensated irrespective of the reason and even if it was, at least partially, beyond our control. This is on the basis that the trigger point for compensation – the length of time without supply – is set at a level that allows for prudent management action to be put in place post on event that was outside of our control, such as severe weather which may restrict our speed of response. See our response to question 2a

**Q3a: Should GSS be expanded beyond supply interruptions to cover supply restrictions, such as temporary use bans?**

We do not consider it appropriate for compensation to be extended to supply restrictions. These are used only where appropriate and triggered through a formal process under our drought management plans. Creation of a penalty regime around the application of an agreed process could result in companies taking less efficient long-term decisions to the detriment of all customers and the environment.

**Q3b: 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 no further comments to make.

**Q4a: 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?**

We do not consider that this would be reasonable. A balance should be struck to ensure that arrangements going forward provide an appropriate level of compensation but must still ensure that companies' are not unduly financially impacted. Our other proposals for enhancing GSS compensation arrangements, as per our response to the other questions, are a better long-term means of doing this than adjusting the basis of the compensation amount without much tangible evidence of why.

**Q4b: All payments could be price inflated automatically in future. Would this approach be reasonable and proportionate?**

We consider that this would be reasonable and we support an approach that aligns the inflation adjustment with the inflation adjustment applied to other aspects of the wholesale price control, i.e. an inflation adjustment each year that uses the prior November CPIH value.

**Q5a: 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 do not support introducing this layer of complication and consider it would be very difficult to differentiate fairly – the impact on a business from a supply interruption is not necessarily linked to the type of information we would have available to us to allow differentiation.

In addition to GSS compensation, businesses are able to make a claim for loss of earnings which provides a means for those businesses affected by an interruption to receive compensation. We consider that this approach is significantly fairer than any approach that could be applied through the GSS framework.

**Q5b: 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 do not consider that this additional layer of complexity is warranted and it is difficult to evaluate whether different customers are more or less inconvenienced by interruptions to supply. We provide additional face-to-face support for customers in vulnerable situations which we consider is the most meaningful additional support we can provide. Additional complexity risks introducing delays to the automatic payment approach that we take.

**Q6: 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?**

We have no further suggestions to make.