

Call for evidence consultation – Guaranteed Standards Scheme (GSS)

This document is a response to Ofwat's consultation on Guaranteed Standards Scheme (GSS). The response is prepared on behalf of Severn Trent Water and Hafren Dyfrdwy.

Question 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?

During the thaw event we reviewed our compensation approach with CCWater and felt that the initial payment of £30 was still appropriate for loss of supply over 12 hours (the equivalent of one month's average consumption of water). However, we did feel the £10 for each additional 24 hour period was not sufficient and did not acknowledge the inconvenience that prolonged periods without a water supply would have on our customers. We therefore increased these payments to £20 where a supply outage goes over 24 hours. In these circumstances, a household customer received £50 for supply interruptions over 24 hours and then £25 for each additional 24 hour after that.

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?

We do not feel that increasing the minimum level will automatically result in less compensation being paid. It will be very much dependant on the current levels water companies have set. It is highly unlikely that we would reduce our current level of enhanced payment to match any new minimum level of payment introduced. However, if the new minimum level matched or was greater than our current enhanced amounts it would not automatically mean that we would look to increase our enhanced level of payment. In these circumstances we would likely perform a line by line review and consult with our customers and stakeholders before enhancing our level of payments further.

Question 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?

The initial trigger of 12 hours takes into account the wide range of supply interruption events, to allow reasonable time to restore supply to customers whilst also considering the impact of being without water for

half a day. We acknowledge however that with increasing customer expectations, new operational tools and techniques to restore supply it is also reasonable to question whether we should challenge ourselves on the initial trigger and set it as 10 hours.

We feel that the 'each further 24 hours' is not easily understood by customers and would therefore recommend that following the initial threshold of 12 hours the next trigger should be 24 hours as being off for a whole day is material in a customer's mind. This will also make 'each further 24 hours' easy to understand as it will align with whole days.

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

We agree that the amount of compensation paid should be greater than £10 as we recognise that the longer the duration of the supply interruption the more inconvenient it is.

However, we feel there is a risk in making the measure too punitive as there is a risk that companies may look to use the exemption clauses more often. From an operational perspective our first priority is to restore supply to our customers as quickly as possible. All options are considered in the early hours of an event and if supplies cannot be restored within 24 hours it likely because there is a significant issue and exponential increases in compensation payments are unlikely to provide any added incentives to resolve the issue quickly.

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

We feel on the whole the current exemptions are still valid. We did note that no company used the severe weather exemption during the recent 'Freeze Thaw' event and would suggest there should be additional clarification as to when it should be considered valid. In the past, we have only used weather exemptions during periods of exceptionally heavy snow where it would threaten the safety of our operational personnel to send them to a particular location.

Question 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?

Any interruption to supply causes a level of disruption and inconvenience to customers and we feel that GSS should cover restrictions beyond supply interruptions.

As such we already offer enhanced GSS for a number of supply restrictions including intermittent supplies during an incident which cumulatively add up to more than 15 hours, water quality notices which restrict use (boil, do not drink and do not use) and emergency restrictions on water use.

The amounts paid do vary depending on the impact the restriction has on a customer and our ability to influence the cause of the restriction. Where the restriction impacts health and hygiene we feel the payments

should be higher than restrictions to leisure uses of water and even within the first category there can be different degrees of inconvenience.

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

Payments should be made proactively and not have to be claimed by customer. We also feel that customers should receive written correspondence to confirm that compensation has been paid to them.

We feel that companies should be given the flexibility to choose the method of payment dependent on customer wishes and circumstances. Our preferred approach is to credit a customer's water account, which the vast majority of customers are happy with. Where a customer requests payment through a different method we reverse the credit on their account and pay them the amount directly into their bank account or by cheque. The majority of customers do not want to receive cheques due to limited time to find a bank and pay it in.

Question 4: Adjusting all payments under 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?

The approach and valuation of GSS should be considered in the context of our response to question one.

We also think any approach to adjusting GSS payments should be consistent with the change in either bills or ideally changes to ODI incentive rates between price reviews. This would ensure alignment between different incentives and the overall package.

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

As above.

Question 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?

Business customer requirements vary significantly when compared to domestic customers and the current approach of a standard payment regardless of the size of the business does not feel appropriate. Equally it is

important to note that compensation for supply interruptions there is no requirement to compensate for loss of business / profit but to compensate for the fact that the service they normally receive has been disrupted.

We think there are two options which could be considered for business customers. The first and most simple is a 3 tiered approach which is dependent on a business's water consumption (and not the size of the business) with the current £50 being paid for small users and higher amounts for medium and large users (e.g. £250 and £500 respectively).

An alternative approach which again takes into account a business's water usage is to make it more specific to each customer, say higher of £50 or 1 day of wholesale charges (for each 24 hours they are without supply).

The second option is more complex to administer but would take a similar approach to sewer flooding payments and would recognise the individuality of business customers.

The main challenge with differentiating the compensation paid to business customers is the wholesaler's ability to understand the amount of water used by each individual customer. Our knowledge of usage is based on the meter reads submitted by their retailer, however if the retailer has not submitted meter reads into CMOS we will be unable to categorise the customer as a small, medium or large user. Potentially, if an incorrect read exists in CMOS, the customer could be in the wrong category and receive the wrong payment. Incorrect reads and missing reads do happen which would result in re-issuing payments which poses an unnecessary cost and administration burden on the wholesaler.

We would also need to determine which time period of usage would be used to determine their category.

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 feel that there shouldn't be different compensation arrangements for customers in vulnerable circumstances. Providing a customer in vulnerable circumstance is on our Priority Services Register or identifies themselves during an event, additional support will have been offered to them, mainly in the door step delivery of bottled water. We feel this provides the support they need during the outage and therefore they should only receive the standard compensation.

Question 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?

We feel it should be explicit that NHH retailers have to pass on the full amount of GSS paid by the wholesaler to the NHH customer.

Wholesalers should still be allowed to still offer enhancements to minimum payment levels. We understand there are requests from NHH retailers for a standard approach across all wholesalers.

Currently, companies have 20 days to process GSS payments after which a £20 penalty payment is due. From a customer perspective, waiting a month to receive their compensation seems a long time. We acknowledge

that considerable analysis goes into calculating which customers are due compensation but feel that a review of timescales would be appropriate as part of this wider review.