

GSS Consultation
Ofwat
21 Bloomsbury Street
London
WC1B 3HF

Date
10 September 2018

Contact

Tel [REDACTED]

Dear Ofwat,

Call for evidence consultation – Guaranteed Standards Scheme (GSS)

We are pleased to respond to the call for evidence on updating the GSS regulations for water supply interruptions.

To inform our response, we considered our own operational experience and what we hear from our customers day-to-day and reviewed compensation schemes provided in comparable sectors, including energy, telecoms and rail. We also carried out some snap research with 1,000 of our customers to get their direct input on some of the key questions. This research was carried out through two instant surveys of 500 customers each using an online research tool. While the results cannot be considered to be completely representative of our entire customer base, they provide a very good indication of the general feeling of customers and some clear messages. In particular it is worth noting that financial compensation is not high up on customers' list of priorities in the event of an interruption. When asked in the survey to rank six attributes in order of importance, financial compensation was ranked fifth, with communications during an incident of far greater importance.

Based on our customers' views and our comparator review our headline responses on the key questions are as follows.

- There is no clear evidence to support a significant increase in the level of basic compensation, but the follow-up compensation for prolonged events should be increased.
- We should consider basing compensation on a % of the water bill, rather than a flat rate. This would address both the need for inflating the compensation level each year and differences in bill levels both between companies and between different customer groups.
- There is a case for reducing the interruption time threshold for compensation. We suggest six hours, to balance customer views and operational constraints. This would mean the threshold was the lowest of any comparator sector.
- There is no strong demand to reduce the 20-day payment time, which is constrained by the need to carry out operational analysis to identify all affected customers.

In Appendix 1 we provide answers and evidence in response to the specific questions in the consultation. Appendix 2 provides a brief overview of the survey we carried out, including the questions we asked. We would be happy to share the full results with Ofwat if that would be helpful.

Yours sincerely,


Director of Strategy & Regulation



Appendix 1: Responses to specific Ofwat 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?

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 asked our customers: “If compensation was provided for the loss of water supply for one day how much do you think would be a fair level of compensation? (in £'s).
- They were presented with a slider on a scale of £0-£100. They were not told the current value (£20).
- 46% of customers gave a value of between £0-£30; 35% between £30-£60; and 19% greater than £60.
- This would suggest that there is not an overwhelming customer expectation or demand for payments at a significantly higher level than at present.
- We also reviewed compensation provided in comparator sectors, with the findings summarised in Table 1 below.

Table 1. Compensation for service interruptions in comparator sectors

Sector	First payment	% of average bill (household)	Criteria	Further payments
Gas	Domestic: £30 Business: £50	6%	24hrs	£30/£50 per 24hrs
Electricity	Domestic: £70/£75 Business: £70/£150	13%	12-48hrs dependent on severity of weather	Domestic and business: £35/£70 per 12hrs
Telecoms	£8	2%	2 days	£8 per day
Water	Domestic: £20 Business: £50	11%	12hrs	£10 per 25hrs

- We note that while the compensation payments for electricity supply interruptions are significantly higher than water in absolute terms, as a percentage of the average bill, they are broadly similar (13% of an average water bill would equate to £25).
- Gas and telecoms are both significantly lower than water, in terms of a % of the average bill.
- We also looked at rail, which is more difficult to compare directly, but the compensation for even the most severe delay represents less than 1% of the value of a season ticket.
- Overall, we do not think there is compelling evidence, either from comparator sectors, or from our customer views, for a significantly higher compensation payment for the first interruption.
- There may, however, be a case for increasing the further payment element for a continued interruption. This appears to be low compared with comparators.
- Furthermore, 61% of our customers told us that they thought the payment for additional days without water should be higher. See below for further details.

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 asked customers the minimum duration of an interruption for which financial compensation should be received. Customers were presented with options from 0-4 hours to >1 day.
- Only 15% gave an answer of greater than 12 hours (the current standard). 40% were in the range 4-12 hours; and 31% said 0-4 hours. 13% believed compensation should be paid for any interruption.
- Based on this evidence there would appear to be a good case for reducing the threshold below the current 12 hours.
- We note that water already has the shortest minimum interruption period of all utilities (see Table 1 above). However, this is consistent with a view that we heard from customers in our research following the 2018 freeze / thaw event, that the loss of water supply is the most impactful of utilities, often having multiple indirect effects on customers, such as a loss of heating.
- From an operational perspective, a very tight target would mean that compensation is nearly always due and may reduce the incentive to keep interruption times to a minimum.
- Our view is that a threshold of six hours would strike an appropriate balance between customer views, comparators and operational constraints and incentives.

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

- There was clear support from our customers for a higher payment for a second day without water, with 61% agreeing that a higher payment should be made for interruptions greater than a day, against 33% believing it should be at the same rate.
- We do not have a view from our customers about how much greater it should be, but at the very least, there appears to be no good basis for a lower payment for subsequent periods, either from customer views or based on comparator sectors.
- We would suggest that, as a minimum, the payments should be at least as much as the initial payment.

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

- We think it is important to recognise in the regulations that there will sometimes be circumstances that make it difficult to quickly restore customers' supplies in the event of an interruption.
- Of the current exemptions, we think those that relate to third party actions and the inability to reasonably identify a customer as affected should remain.
- The special circumstances of bursts on strategic mains are already recognised in the regulations through the longer 'time to restore' rules, so are perhaps redundant.
- For severe weather, the recent freeze/thaw incident demonstrated that in practice companies are likely to make GSS payments anyway in such circumstances, so this may no longer be appropriate.
- However, we think there is merit in considering whether the time thresholds should be different in the event of very extreme conditions, perhaps measured by the number of customers affected, as in the electricity compensation rules.

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?

- We have not seen any evidence that customers would expect to be compensated in the event of temporary use bans.
- We currently have an ODI relating to temporary use bans, which we are proposing to discontinue in AMP7. When we consulted with customers on the ODIs that we were proposing to discontinue, as part of our PR19 research, there was no particular concern about dropping this measure. (In contrast customers were very concerned about our proposal to discontinue low water pressure as a PC and we therefore reinstated it.)

- Our WRMP research tells us that most customers recognise that such restrictions are necessary to manage water resources in periods of drought, are able to easily manage the impacts and would not expect financial compensation.
- In contrast, more extreme restrictions, such as rota cuts would have significant impact and it is right that compensation is payable in these circumstances under licence condition Q.

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?

- The current regulations require us to pro-actively identify customers affected and make payments to them automatically. We do not believe there is a more stringent standard to which we can be held accountable in this respect.
- Compensation payments must be made within 20 working days. This compares with 10 days for some other GSS standards such as missed appointments.
- While there may be an argument for harmonising these payment periods, it is important to bear in mind that those standards for which the requirement is to pay in 10 days relate to incidents affecting individual customers. In contrast, supply interruptions may affect a large number of customers simultaneously and require operational analysis to ensure that all customers are identified. This analysis may take some time.
- While we did not specifically test this question we do not feel that speed of payment is of particular importance to customers (overall financial compensation was ranked fifth out of six options in terms of relative importance to customers) so we do not think changes are required.

Arrangements for all payments under the 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?

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

- In considering this question we were struck by the fact that the current flat rate of £20 bears no relationship to the size of a customers' annual water bill. For a customer of Essex & Suffolk Water, £20 represents 8% of the average annual water bill while for a customer of Portsmouth Water, it represents more than double at 20%.
- With such disparities, it may be sensible to set the compensation payment based on a fixed % of the prior year's bill, rather than a flat rate. This is not an approach used in most comparator sectors – with the exception of rail – but given the

significant bill differentials between water companies it may have some merit in our sector.

- If this was adopted it would mean that the level of compensation offered would not need to be annually adjusted for inflation, but would automatically track the water bill. Customers paying more for their water would receive commensurately greater compensation and vice versa.
- In addition, it would address the question of different rates for business customers (see below). Those for whom water represents a larger part of their cost base would automatically be compensated by a greater amount, without the need for a complex set of rules and gradations of payments.
- When we asked customers this question, they were fairly evenly split between those supporting a flat rate (44%) and those favouring a % of the bill (51%) but with a majority favouring the % approach.
- Our view is, therefore, that the issues of inflation, differences in bill levels between companies and differences between businesses of different sizes would all be best addressed through moving to a % of bill approach.

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?

- Our suggestion is that compensation should be related to the size of a customers' bill rather than set at a flat rate.
- This would be the simplest way of addressing the disparities between businesses of different sizes in a fair and objective way.

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?

- In our follow-up research to the freeze/thaw event of March 2018, we heard very clearly from a number of customers in vulnerable circumstances the huge impact that the interruptions had on their lives. This suggests that a higher compensation for such customers may be warranted.
- However, we think that this is not necessarily the right response, for two reasons.
- First, the key thing for these customers is providing practical support and advice during an incident. Compensation after the event is a poor substitute, and the primary focus should be on ensuring that we have a clear understanding of the water needs of all of our customers in vulnerable circumstances and we act quickly in the event of an interruption to provide the necessary practical support. That is a key lesson learned from the incident in March.

- Second, the level and nature of impact on our vulnerable customers is highly variable. Attempting to somehow measure the severity of impact and reflect that in compensation rates, would be fraught with challenges.
- On balance therefore we would not support different compensation arrangements, but we should all be focused on the importance of identifying and supporting customers in vulnerable circumstances during an incident.

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 have not identified any other aspects of the arrangements that merit review.

Appendix 2. Customer survey

We conducted two customer surveys using our online instant survey tool. The surveys were conducted on 6 September 2018 and remained open until 500 responses were received. We split the survey in two, both to allow us to ask a wider range of questions and to elicit responses on the issues from a wider sample.

While 500 customers in each survey gives a good sample of views, we would note that the survey respondents were self-selecting so could not be considered completely representative of our customer base. In particular older demographics will typically be under-represented in online surveys. We did ask respondents to the first survey whether they had ever experienced an interruption. 220 out of 500 said they had done so, suggesting that we have a reasonable coverage of customers who have been personally affected by supply interruptions.

The questions that we asked are reproduced below.

Survey 1.

(i) Drag and drop to rank how important each of the following would be if your home had a water supply interruption? (Please put the most important at the top)

- Being told clearly why there is an interruption
- Clear information explaining when the interruption will be fixed
- Regular updates as to what is happening
- Clear advice and support (e.g. how to receive free bottled water)
- Financial compensation
- An apology for the inconvenience caused

[nb the attributes were presented in a randomised order]

(ii) If financial compensation was provided which do you think would be the fairest way of deciding how much should be provided? (Exclusive)

- A fixed amount – so every customer receives the same amount of compensation regardless of the amount of their bill Clear information explaining when the interruption will be fixed
- Percentage of your bill – so the more you pay for water; the more your compensation
- Neither option / Don't know

(iii) Have you ever had a water supply interruption to your home? (Exclusive)

- Yes
- No
- Don't know

Survey 2.

(i) For what minimum time do you think a water supply interruption should last for; before financial compensation should be provided? (Exclusive)

- Compensation should be provided for any loss of water supply
- 0-4 hours
- 4-8 hours
- 8-12 hours
- 12-24 hours
- Over 1 day
- I don't think compensation should be provided at all
- Don't know

**(ii) If compensation was provided for the loss of water supply for one day; how much do you think would be a fair level of compensation? (in £'s) (Slider)
[nb the slider allowed the customer to choose a value between £0 and £100]**

(iii) If the loss of water supply was to last for an additional day (2 days in total); which of the following do you most agree with about the level of that compensation for the second day? (Exclusive)

- It should be the same level as for the first day (i.e. in total you get twice the compensation)
- It should be at a higher level (i.e. in total you get more than twice the compensation)
- Don't know