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Strategy & Regulation



12 September 2018

Dear Sir or Madam

Call for evidence consultation- Guaranteed standards scheme (GSS)

Thank you for the opportunity to respond to your call for evidence on the Guaranteed Standards Scheme (“GSS”).

Since its introduction, GSS has played an important role in ensuring customers receive a minimum level of service and redress where the level of service is not met. It has been 10 years since the last substantive update to the levels of service under GSS and, understandably, our customers’ expectations of the service we provide has changed significantly in that period. We, therefore, welcome the proposal to review the regulations underpinning GSS requirements for supply interruptions to ensure they better reflect the minimum levels of service customers expect today and that level of payments are still relevant compared to the industry average water and sewerage bills.

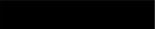
For some years, we have operated an enhanced customer guarantee scheme (“CGS”). This provides our household customers with minimum payments that are fifty percent higher than required under GSS. Additionally, in many cases we do not make use of the exemptions provided under GSS and in extreme events go even further beyond our usual CGS payments. For example, we provided a significantly more generous package for customers affected by the freeze-thaw event in March 2018, reducing the qualifying time duration threshold and paying substantially more than our usual CGS payments. While this has been the right thing to do for customers, implementing bespoke CGS packages can be resource-intensive and potentially confusing for customers with separate water and sewerage providers. We are, therefore, supportive of a wider review of the GSS arrangements to bring them up to date, being mindful of the need for them to work with the rest of the regulatory framework. This includes the business planning process, where improvements to levels of service are identified through extensive customer engagement, and other incentive mechanisms such as C-MeX.

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We hope you find our response useful and please don't hesitate to contact us if you would like to discuss anything in our response.

Yours faithfully

A handwritten signature in blue ink, appearing to be 'Am A' followed by a flourish.


Head of Economic Regulation

Call for evidence consultation- Guaranteed standards scheme (GSS)

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?

Subject to the final payment figures being rounded appropriately so our customers can easily understand the amounts they are entitled to; we support increasing the level of payments under GSS for supply interruptions, especially as we already offer our customers an enhanced level of payment under our CGS scheme.

In order for GSS to remain relevant to household customers, we think it is important that the levels of payment are reflective of the average industry combined bill, rather than relying solely on inflation. Creating a link between the average industry bill and GSS payments will ensure that the levels of compensation household customers receive is always comparable to the amount they pay for water and sewerage services. This will be particularly important if in the future bills increase faster than inflation, and will also help ensure that GSS payments are transparent to customers year on year.

The link between average industry bills and GSS payments could be created via changes to the regulations to require Ofwat to set the minimum GSS payments at each price review, taking into account the industry average bill resulting from the price review and the need to maintain the same relative proportion of payments.

With regard to non-household customers, while we would support increasing the baseline level of payment for supply interruptions in line with the average industry non-household bill, it is not as straightforward as it would be for household customers given the wide range of non-household consumption. The GSS payments would need to be set in relation to the average industry combined bill by volumetric bands. We recognise this change would increase complexity for retailers and wholesalers, and it could result in the need for expensive system updates. We, therefore, suggest that GSS payments for non-households should in the first instance be inflated (since 2001), while further engagement is carried out with retailers and wholesalers to develop an appropriate approach for non-household customers.

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 anticipate that amendments to the regulations will reduce the minimum amounts we pay to customers and we would expect to at least pay our current CGS payments. However, ultimately, whether a company pays more than the GSS levels is a business decision. As such, we would, need to review our CGS to take into account how any new changes to the regulations, such as reducing the triggers for payments and changing the increments in which payments increase, impacts what we can offer customers.

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?

Yes, we think there is an opportunity to simplify the regulations and remove the distinction between supply interruptions caused by a leak or burst on a strategic main and those that are not caused by a leak or burst on a strategic main.

Currently the regulations for unplanned interruptions apply in two circumstances:

- A. where the supply is interrupted or cut off in an emergency because of a leak or burst in a strategic main, if the supply is not restored within 48 hours from the time when the undertaker first became aware of the interruption; and
- B. where the supply is interrupted or cut off in an emergency, but not because of a leak or burst in a strategic main, if the supply is not restored within 12 hours from the time when the undertaker first became aware of the interruption.

While leaks or bursts on strategic mains are operationally more challenging to address, the distinction does not take into account that the customer experience is essentially the same. We propose, therefore, that the distinction is removed so that it is only duration of the interruption that triggers a payment. This is likely to be more in line with customer expectations and will simplify GSS for customers and companies.

We also support reducing the number of exemptions to making GSS payments. As a company, we rarely make use of the available exemptions with the exception of where a third person (including the customer) prevents us from restoring supply. As such, we would support removing the current exemptions relating to industrial action and severe weather for all of the GSS regulations.

With regards to the duration of a supply interruption that should trigger a payment, we think it should certainly be no more than 12 hours and it is likely that customers expect a much lower threshold. Customer engagement could be undertaken to understand customers' expectation for interruptions and when GSS payments should be triggered, including the appropriate length of time between graduations.

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

We support changing the current structure of how GSS payments increase with duration of interruption. The current increments of £10 per 24 additional hours without supply (after the initial 12-48 hours) is disproportionate to the level of disruption customers have experienced, which arguably increases the longer the supply is off. For this reason, we think that, as a minimum, the GSS payment for each additional 24 hours out of supply should be the same as the first 24 hours. This would be more representative of the disruption experienced and simpler for the customer to understand.

While we understand the appeal of an increasing scale of payments as duration of the supply interruption increases, the case for this needs to be considered as part of the overall GSS package, for example, if the triggers for GSS payments are reduced and the value of the payment is larger, it is less clear that an increasing scale of payments is needed. Additionally, payments need to be balanced with the size of the average industry bill, the impact on customers' bills of increasing GSS payments, and the other services we put in place for customers affected by a long supply interruption. For those reasons, we think it is unlikely an increasing scale of payments is appropriate.

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?

While under condition Q we do compensate customers when we are forced to invoke a drought order, the resulting impacts on customers are also much more restrictive in nature than temporary use bans and, in particular, have consequences for some businesses. It does not, therefore, automatically follow that customers should receive compensation for the implementation of temporary use bans.

While temporary use bans may appear to customers to be caused by a failure in our service and network, they are actually an important tool in managing difficult supply demand circumstances. As part of our water resource planning and business plan development process, we actively consult customers on the acceptable return period of temporary use bans and non-essential use bans. This includes whether they are willing to pay more to reduce the likelihood that these bans might be implemented. If customer research tells us they are unwilling to pay for a reduced risk of temporary use bans, it seems inappropriate to pay customers compensation for not providing it, especially as this money, would ultimately come from customer bills. As such, introducing GSS payments for temporary use bands would undermine customers' ability to influence levels of service and could result in bill increases.

4. Adjusting all payments under the GSS by inflation.

a) All payments could be increased by inflation retrospectively from 2000/1 when the levels of compensation were last changed. Would this approach be reasonable and proportionate?

We would support this one-off increase. It should bring GSS payments to a sensible amount closer in line with the level of our CGS payments to household customers, but still transparent and easy to understand.

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

As explained in our response to question 1, we think it would be more appropriate if going forward GSS payments were set every five years with reference to the industry average combined bill. This will ensure that the level of payment remains relevant to customers, which would be particularly important in the future if bills increased faster than inflation, and provides transparency to customers as to the level of

payment they can expect. Additionally, it is important to round the payment figures appropriately to avoid creating spuriously precise GSS payments, which relying on inflation is likely to produce. Such figures would not be meaningful to customers and are much more difficult for them to calculate.

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?

While we appreciate GSS does not currently distinguish between different business customers and the effect failures have on them, the data available on customers and the structure of the non-household retail market would make this a difficult aim to achieve in the short-term. Therefore, while we think GSS payments for non-households could be set with reference to consumption bands, we propose that differentiation by customer type is not introduced at this point. Instead, we suggest that further work between wholesalers and retailers is done to develop an approach that balances the desire to reflect different customer types with the need to minimise administrative burden on retailers.

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 do not think it is appropriate to introduce different GSS arrangements for customers in vulnerable circumstances at this point.

As we explain in our PR19 business plan, we are implementing a number of schemes to increase what we know about our vulnerable customers, as well as deliver industry leading levels of customer service to our vulnerable customers. We are also aware that other companies are undertaking schemes to identify their customers in vulnerable circumstances and improve services to them. As such, it would currently be difficult to implement separate GSS arrangements for those customers. Instead we suggest that this proposal is reviewed again in AMP7 by which time companies will have made significant progress on improving the quality of information they hold on their customers in vulnerable circumstances. Separate GSS arrangements could then reflect the minimum levels of service customers in vulnerable circumstances should expect to receive during supply interruptions.

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?

While overall we believe that GSS works very well, we feel there are some other parts of the regulations that should be reviewed in light of the industry-wide improvements in levels of service. For example, the need to notify a customer of a planned works only if it is likely to last more than 4 hours is a high threshold and does not take into account that a customer, especially a business could be out of supply for almost half of a working day (3.5 hours) without notification, and not qualify for any payment. In addition, as long as the planned works occur within the duration notified, the customer is not entitled to any compensation even if the duration of interruption is similar to that which would trigger GSS payment

for unplanned interruptions. We think, therefore, that GSS payments for planned interruptions should be considered as part of the wider approach to compensating customers for supply interruptions so that similar levels of payment are received for similar durations of interruption.

Additionally, as we suggest in our response to question 2a, we support reducing the number of exemptions to making GSS payments. As a company, we rarely make use of the available exemptions with the exception of where a third person (including the customer) prevents us from restoring supply. As such, we would support removing the current exemptions relating to industrial action and severe weather for all of the GSS regulations.

We also propose that the approach to late payment penalties needs to be reviewed as the current approach to late payment provides for a one-off additional payment regardless of how late the payment is made. This could provide the wrong incentives to companies, with companies prioritising new GSS payments to avoid penalties on those. While the late payment penalties could be restructured to address this issue, this could be complicated to implement. We believe more engagement is required at an industry level in order to understand whether customers value the penalties and thus support their being in place or whether other regulatory tools might be more appropriately used to provide an increased focus on timeliness of GSS payments, for example performance commitments.