

GSS Consultation
Ofwat
21 Bloomsbury Street
London
WC1B 3HF

Wave
Block C, Western House,
Peterborough Business
Park,
Lynch Wood,
Peterborough,
PE2 6FZ

10 September 2018



Dear Ofwat,

Call for evidence consultation – Guaranteed Standards Scheme (GSS)

We welcome Ofwat's review of the Guaranteed Standards Scheme in the light of customer experiences relating to the weather events known as 'Beast from the East'. As a non-household retailer our comments are focused through the lens of business customers. We have responded to the questions posed below.

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?*

For business customers the current GSS arrangements do not reflect the impact of being without water for a prolonged period. We work with business customers (and wholesalers) to go as far as possible to put in place appropriate measures to protect customers against reasonable loss of supply, recognising that payments which would truly provide compensation for loss of service to large business customers would stretch into thousands and in some cases tens of thousands. Even though GSS payments are not true compensation, we would like to see the payments linked to their impact on business customers and therefore GSS payments should be i) increased for larger business customers and ii) increased where wholesalers persistently fail to improve their services.

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?

The principle should be that customers receive an increase in compensation not less and if higher penalties drive a faster resolution of issues then that should be considered a positive.

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, there should be a reduction in the timescale before GSS payments are made where the supply is interrupted or cut off in an emergency due to a leak or burst in a strategic main. The current 48 hours has a considerable impact on businesses and storage for that period is simply not practical for many larger customers due to the volumes involved. Where business customers have storage, this will typically be for a period up to 8 or 12 hours. To reflect this, the current 48 hours should be reduced to 12 hours.

Given the impact of loss of supply on business customers there should be a stepped approach to payments, providing higher compensation where disruption has a greater impact. At its simplest it could differentiate between SMEs and larger industrial customers alternatively it could be based on typical customer consumption or revenue, with larger businesses receiving larger payments.

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

Yes, there should be a business imperative for the wholesaler to restore supplies as quickly as possible. The current 24 hours for the customer being without a supply is too long and should be reduced to 8 hours to greater reflect the impact on customers and the additional GSS payments should double every time.

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

The current exemptions are acceptable but the wording could be usefully tightened up to improve clarity, for example 'it is impractical for the company to have identified the particular customer as being affected' is quite vague.

Wholesalers should not be the ones to decide whether an exemption is applicable or otherwise. An independent body with customer representatives should determine when exemptions should apply or not.

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?

Yes, further consideration should be given to the key areas which impact on business customer operations including temporary use bans, changes in pressure, changes in flow and changes in water quality characteristics. Consideration needs to include how this would be linked to standards in place and how it would be managed to ensure the right customers benefit.

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?

As also noted below, we would like to see faster payments to retailers from wholesalers. There is currently a lag between us as the retailer being informed a GSS payment is due and receiving the money from the wholesaler which is typically a monthly credit invoice. Should GSS payments increase for supplies not being restored, this issue would be exacerbated.

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?*

We would prefer GSS payment amounts to remain as currently prescribed for all other standards. Whilst we appreciate that the level of GSS payments have not been inflated since 2001, the general approach of having standard published amounts is easy for customers to understand and simple and cost effective to administer, particularly when payments are passed from wholesalers to retailers. The amounts are nominal amounts which do not truly reflect the impact on each customer in each particular case and therefore an increase from, for example £25 to £35 (reflecting the 40% suggested) is unlikely to have a significant impact on a business customer. Furthermore, whilst retailers make every effort to provide great services to customers so that GSS payments are not required, it is inevitable that on some occasions this will occur. The small margins available to retailers in the non-household retail market do not support any increases to the current GSS payment amounts.

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

We would prefer GSS payment amounts to remain as currently prescribed for all other standards. In addition to our comments in 4.a) above, this approach would have additional practical implications in that wholesalers and retailers would need to increase the GSS payment amounts annually by the same amount at the same time and apply them consistently. The small margins available to retailers in the non-household retail market do not support any increases to the current GSS payment amounts nor increases in implementation and administration costs. On balance we don't think this approach is proportionate.

5. *GSS arrangements for different types of customers.*

- a) *Should the arrangements differentiate between compensation for businesses of different sizes (eg big businesses and SMEs)? If so, what approaches could be adopted in order to differentiate fairly?*

Whilst we support the differentiation of GSS payments for businesses of different sizes for loss of supply, which reflects the significant impact this has on business operations, we are not yet convinced that GSS payments more generally warrant differentiation. For big businesses the amounts will still be too small to be of any real significance.

- b) *Should there be different compensation arrangements for customers in vulnerable circumstances? If so, what approaches could be adopted in order to differentiate fairly?*

This is probably more directed at household customers than business customers, however, from a business customer perspective, there are already additional customer protections in place for micro-businesses which are often extended to larger businesses too. On balance therefore, we are not persuaded that there should be different GSS payment arrangements for vulnerable or 'sensitive' business customers.

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 would like to see faster payments to retailers from wholesalers. There is currently a lag between us as the retailer being informed a GSS payment is due and receiving the money from the wholesaler which is typically a monthly credit invoice. Should GSS payments increase, this would become more of an issue.

We hope that our comments are useful. Please do not hesitate to contact me if you would like to discuss any aspect of our response further.

Yours faithfully




Head of Policy and Compliance