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13th October 2023

Dear Sarah,

Re: Call for evidence – Improving how the GSS works for people

I am writing to you on behalf of independent Water Networks Limited (“IWNL”), part of the BUUK Infrastructure Group of companies, in response to your call for evidence on [Improving how the Guaranteed Standards Scheme \(GSS\) works for people](#), published 9 August 2023. This letter presents a summary of our views on the proposals set out in the consultation and then responds in turn to the questions that you raised. I can confirm that this response is not confidential and can be published on the CCW website. Indeed, we have copied this letter to Emma Kelso and Phil Hand at Ofwat, for their information.

Summary of IWNL views

We’re pleased to be part of the conversation on this important topic. The provision of a high quality of service to our customers is a key priority for us and we are continually considering ways that we can improve the overall standard of service we deliver. To this end, we would be keen to participate in the industry working group that CCW is proposing to establish to facilitate effective engagement on this issue and would like to be included on future communications regarding this piece of work.

The GSS not only provides incentives to water companies to maintain an agreed standard of service for their end customers but also provides critical protection to these customers in instances where the service they receive falls below defined levels. We recognise that the GSS has remained largely unchanged in the 30 years since it was first implemented and think there is a strong rationale for formalising the voluntary enhancements adopted by water companies in 2018, and revising elements of the standards that are outdated / ineffective. We think there are a number of issues that should be reviewed, including the following.

- **The absolute level of compensation available:** There is a need to ensure that the absolute payment levels available under the GSS reflect the cost and inconvenience that

failures, on the part of water companies, cause for consumers; particularly in the context of the cost-of-living crisis, and the significant inflationary pressures customers are facing.

- **The relative scale of compensation available:** The GSS is intended to recognise the cost and inconvenience that customers suffer where their water company fails to deliver and, as such, the relative scale of customer harm should be captured and reflected in possible payments. This issue is particularly pertinent in the context of 'internal flooding'.
- **Responsibility for GSS following an incident:** Current GSS provisions are silent on where responsibility for GSS should sit in instances where a NAV customer experiences an interruption / flooding due to an outage / blockage on the upstream incumbent network. The absence of a clear line of responsibility in this area leads to a number of skewed incentives; distorting the way incumbents respond to incidents on the upstream network, that also impact downstream NAV network customers, in the following ways.
 - Creating inaccuracies in incident reporting where incumbents treat NAVs as single customers, and record only one customer affected by a NAV network outage;
 - Reducing the incentives incumbents have to resolve outages where they treat the NAV as a single customer, due to reduced visibility of affected customer volumes;
 - Reducing visibility around the criticality of assets and the need for upgrades where incumbents treat NAV connections, and associated outages, as single customers;
 - Potentially penalising NAVs for poor upstream incumbent network service due to the absence of incumbent responsibility for affected customer GSS payments; and
 - A potential dampening of incentives where incumbents include normalised GSS payments within their bulk tariffs, instead of making specified GSS payments.
- **Customer communications:** The arrangements around 'Complaints, account queries and requests about payment arrangements' currently require that communication must be received "in writing" to qualify for potential GSS payments. It would be prudent to update these provisions to reflect alternative types of communication that could be used.
- **Payment arrangement clarifications:** The legislation is clear on the timing of required payments and the need to be able to make these directly to the customer but there are limitations around the making of these direct payments clarity / additional guidelines on regulatory expectations in this area.

I hope that this letter is helpful. If you would like to discuss any of the issues I have raised, please contact me via email (keith.hutton@bu-uk.co.uk) or phone (07970 730688).

Kind regards,



Keith Hutton
Group Regulation Director

CC to: Emma Kelso, Ofwat
Phil Hand, Ofwat

Appendix 1: Responses to specific questions posed in the consultation

1) Within the current standards what works well and why?

The current GSS is a valuable tool that provides incentives to water companies to maintain an agreed standard of service for their end customers and provides additional protection to those customers in the event that the levels of services they receive from their water and / or wastewater providers falls below specified expectations. In this respect, they offer a defined route via which customers can attain monetary recompense where their water company fails to provide agreed levels of services; to compensate them for the harm that they suffered.

The most recent review of the GSS helped to enhance the arrangements, by increasing the level of payments available, and facilitating the automatic payment of compensation for all GSS metrics which helps to minimise effort on the part of the end customer. However, recognising that these changes have been implemented on a voluntary basis, we think there is a strong rationale for formalising them within regulation as part of this review.

2) Should the standards be refreshed and, if so, how?

As pointed out in the call for evidence, although the GSS provisions have been in place since privatisation they have been subject to very little change, and it is therefore inevitable that some level of refresh is required to bring them into line with industry developments and prevailing customer expectations. We think there are two key areas in which a refresh is required and these fall into the following key categories.

- **Changes to the absolute level of payments:** Given that the arrangements have been in place for over 30 years, with payments only having been informally reviewed once, there is a clear need to ensure that the associated payment levels reflect the cost and inconvenience that GSS failures, on the part of water companies, cause for consumers. This is of particular relevance in the context of the current cost-of-living crisis, and the significant inflationary pressures that end customers are currently experiencing; and recognising that water bills are likely to continue rising given the PR24 business plans that incumbent water companies submitted to Ofwat earlier this month.
- **Changes to the relative size of payments available:** The GSS provisions are intended to recognise the cost and inconvenience that end customers suffer where their water company fails to deliver in line with certain specified standards. Within this, we think it is important that the relative scale of the impact on end customers is effectively reflected. For example, the current definition of 'internal flooding', can capture incidents that range from a small patch of foul water ingress within a customers' bathroom to significant foul-water flooding inside a property. In both cases, the current GSS provisions specify that the water company must make an automatic payment to the end customer that is equal to the customers annual sewage charge (from a minimum of £150 to a maximum of £1,000). Whilst this may be considered generous where the ingress leads to a small pool of foul water in the customer property, it may not be sufficient to offset the cost and inconvenience where an end customer suffers significant foul-water flooding which makes their home uninhabitable for a period of time. We think that there is a rationale for reviewing the GSS in its entirety, with a view to understanding the full spectrum of

customer impact that could result under each measure, in terms of the scale of harm that customers could suffer. This is particularly pertinent in the context of the dire customer outcomes that can result in cases of internal flooding. Within this context, it would then be possible to develop and apply an appropriate gradient to GSS payments, with more severe cases receiving a higher automatic payout.

3) What needs to be changed and why?

Our experience of the GSS over the past 15 years that we have been operating in the water industry has demonstrated a clear gap in the existing provisions. This stems from the fact that existing legislation is silent on where responsibility for GSS should sit in instances where a customer on a NAV network experiences an interruption to their supply / internal flooding due to an outage / sewer blockage on the upstream / downstream incumbent network.

The intent of these provisions is to provide incentives to water companies to maintain good levels of end customer service and compensate affected customers where service falls below an agreed standard. However, the current arrangements do not support these outcomes in situations where an incident on the upstream incumbent network leads to customer harm on downstream NAV networks as, in these cases, the incentives are placed on the NAV by default; and the NAV has no control over upstream incidents. We therefore think there is scope to learn lessons from gas and electricity where explicit provisions have been established specifying that the incumbent is liable to comply with GSS, and make associated customer compensation payments, where an incident on their network leads to an interruption or flooding of customers on downstream NAV networks.

Not only would this resolve issues around the skewed incentives that are currently in operation, but it would also help to address a number of related issues that this absence of a clear line of responsibility currently creates; including the following.

- **Artificial reductions in reporting on the number of customers affected:** Current legislative provisions have led some incumbents to effectively treat NAV connections as a single large customer connected to their network for the purposes of GSS reporting. As such, if an incident affects a material number of customers connected to our network, the impact on these individuals will not be reflected in the reporting data these incumbents collate with respect to the incident. This artificial skewing of the reporting data effectively downplays the scale of the incident and the extent of customer harm.
- **Reduced incentives for incumbents to resolve GSS incidents:** As outlined above, some incumbent water companies treat NAV connections as a single customer, which can place customers on NAV networks at a disadvantage in terms of the timeframes associated with the restoration of their supply by the incumbent. In this respect, as the NAV is treated as a single customer, incumbent systems do not recognise the full impact that the interruption of supply / foul-water flooding has in terms of the total number of end customers who are affected. We have therefore observed cases where the incumbent, when planning activity to resolve an incident, prioritised work to secure resolution of its own customers (who may be less in number) over and above the work required to resolve the issue for our customers. We think all incumbents should have an obligation

to consider the total number of end customers impacted by an incident on their network to ensure that prioritisation of the restoration process is equivalent for all customers.

To illustrate this point, we thought it might be helpful to provide an example of how this operates in practice. In this respect, Anglian Water recently experienced an outage on its network which affected approximately 350 of their customer connections and had a downstream impact on a number of INWL customers located on our Yardley Road site. In considering their response to the outage, Anglian Water assessed the number of customers on their network that were affected by the incident and noted that it fell below their internal SLA for a formal incident management team to be triggered; which is 500 affected customer connections. However, Anglian Water did not account for the additional 221 NAV connections that also had their supply interrupted as a result of the incident; if they had taken these customer numbers into account, it would have triggered the establishment of a formal incident management team (as the outage would have been seen to breach the threshold of 500 affected connections). When we challenged Anglian Water about this, they would not comment on whether they thought their policy was in the best interests of all customers; but did agree to review their approach.

- **Reduced clarity on asset reliability / criticality:** In line with the issues outlined directly above, where an incumbent treats a NAV connection as a single customer and its records around the impact of an incident reflect this interpretation, it can reduce transparency around asset reliability and the respective priority that should be attached to associated O&M of those assets. In this respect, we recognise that there is substantial need for investment in incumbent networks and that the scale of the work required, means that there is a need for effective prioritisation of the work to be completed. At present, incumbent companies measure asset risk based on a combination of reportable incidents / cost of service failure etc; with a higher asset risk indicating a greater need for them to prioritise these assets for future upgrade. If the size and / or cost of a reportable incident is not accurately recorded against the relevant incumbent assets and / or the connected NAV assets, this could lead to inefficient investment decisions.
- **Penalising NAVs for poor incumbent performance:** A clear potential consequence of the lack of clarity about where responsibility for the payment of GSS lies, is that NAVs could become liable to pay GSS costs to compensate our customers where the incident that led to the need for these payments was nothing to do with our network and entirely outside of our control. While, in most cases, incumbents do recognise that responsibility for payment of resulting GSS customer costs should fall to them (and accordingly reimburse us for the costs that we incur in making payments to our customers), there have been occasions where this has proven to be difficult and resource intensive. This creates indirect costs to us as a NAV but also leads to unnecessary uncertainty in cases where, to a rational observer, it should be clear where responsibility for payment lies.
- **Dampening of water company GSS incentives:** More recently, we have become aware of 'innovative' approaches that incumbents are taking to reimburse NAVs for the GSS costs that we face in compensating our customers for issues experienced on their upstream network; approaches that we believe further dampen incentives on incumbents to maintain a good level of service. In this respect one incumbent has begun to include allowances for GSS payments in their upfront bulk supply charges. While we understand

the rationale underpinning this decision and see that there could be some merit in the approach, we do not think it is appropriate in the context of the GSS.

Our main concern is that GSS payments will be set ex ante, using information regarding historic GSS payments, but historic performance will not necessarily be a good indicator of future performance in this area, particularly given the ageing water infrastructure in place and the likely increased incidence of extreme weather in the future. In addition, the approach does not recognise that certain assets are likely to be more affected by incidents and therefore some NAV sites may be disproportionately impacted by supply interruptions and / or foul-water flooding. It also does not take into account the potential severity of incidents that may occur in the future, that NAVs would not be reimbursed for. In addition, this approach will increase the priority that incumbents attach to reinstating their own customers given the scale of the potential GSS penalties that they will face; and the fact that they will no longer incur similar costs if they do not resolve our customer issues in a similar timeframe. This directly conflicts with the main aim of the GSS; to facilitate good levels of service for customers, and minimise inconvenience when service falls below agreed levels.

4) Are there new standards we should add, are there others that are out of date and need revising?

An assessment of the water GSS against equivalent guaranteed standards schemes in other utilities suggests there is no particular need for any new standards to be developed but we have identified a couple of aspects of the existing GSS provisions that appear to be out-of-date which we think would benefit from revision.

The first relates to the methods of communication that are specified within Paragraph 7 of the Water Supply and Sewerage Services Regulations 2008 regarding 'Complaints, account queries and requests about payment arrangements'. At present, the wording of the regulations specify that complaints, queries, or requests must be made / received "in writing" to qualify under the provisions of the GSS and be eligible for a payment in the event that the water company does not provide a substantive reply within a given timeframe. Recognising that a significant volume of engagement with our customers takes place over the phone, we think it would be prudent to update these regulations to reflect these alternative types of communication and capture them within the standards. This would also align the provisions of Paragraph 7 with the arrangements in Paragraph 6 regarding 'Keeping of appointments'.

The second relates to the provisions supporting the payment of GSS and is a request for clarification of the best way to meet the legislative obligations. In this respect, Paragraph 13(1) of the Water Supply and Sewerage Services Regulations 2008 specifies that if a company is required to make a GSS payment to a customer as a result of its performance on 'keeping of appointments' or 'complaints, account queries and requests', "the undertaker must make it within 10 working days of its becoming payable". Paragraph 13(3) includes a similar requirement to make any required payment due to its performance on 'interruption to supply' or 'flooding from sewers' within "20 working days of its becoming payable". Paragraph 14 goes on to state that "...a customer who is entitled to payment...may ask the relevant undertaker concerned to make the payment directly to the customer". We note that there are currently limitations around making these payments directly to the end customer.

- Depositing a payment directly into a customer's back account, would either require that (a) a Direct Debit instruction was already set up with the customer, or (b) we request the customer's bank details in order to make a BACS transfer.
- Alternatively, we could send the customer a cheque, but this is now an outdated technology that many customers do not want to deal with.
- Under our established processes, we effectively apply a credit to the relevant customer account, but we are also conscious of the limitations associated with this approach. For example, some of our customers are on bi-annual billing cycles and therefore the timing of an incident may mean that the customer will not see the credit on their account for nearly six months. As such, the payment may not be immediately apparent, and this could mean they have limited visibility of the compensation they have received for the inconvenience caused by the poor water service provided.

There is currently limited discussion of these issues in the legislation or the Ofwat guidance and we would welcome clarity / additional guidelines on regulatory expectations around how best to secure effective and timely payments that optimise the end customer experience.

5) Should payments better reflect the impact of service failures on customers, considering both the direct financial costs and the inconvenience?

Please see our response to question 2 above and the specific comments on proposed changes to the relative size of payments available.

6) Should different service standards apply for customers who need extra help or who have been identified as needing extra help, especially those on the priority services register?

We think it is important that the GSS remain consistent across all customers. While we recognise the potentially increased risk of harm that customers who need extra help may be exposed to during an incident, or in cases where their service falls below the expectations specified in the GSS, we note the additional provisions that Ofwat is proposing to implement to address this via its draft vulnerability guidance. In this respect, we think the combination of minimum expectations specified in the vulnerability guidance and proposed standards for the priority services register (PSR) which Ofwat intends to consult on shortly, will secure appropriate protection for those customers that need extra help. However, we note that policy in this area is still being developed and therefore suggest that it may be worth revisiting these issues once these provisions have been implemented to assess whether they are having the desired effect; or may need to be supplemented via the GSS.

7) Has your company asked customers for their views on GSS and, if so, what did they say? Can you share the research with us?

While we seek to utilise the direct engagement opportunities we have with our customers, via our day-to-day interactions, to attain clarity on their expectations and, in turn, provide levels of service that they value, we do not currently progress any significant volumes of proactive engagement and have not undertaken any specific research regarding the GSS.

8) How do you use GSS data internally to drive performance?

We report on our GSS performance within the customer statement that we publish on our website and submit to Ofwat as part of our annual report. The data we published in our [2020-21](#), [2021-22](#) and [2022-23](#) reports demonstrated that, over the past three years, we made 41 payments for the provision of services that fell below agreed GSS levels; and of these 35 were in relation to the keeping of appointments. While we strive to deliver high standards of service, and seek to honour our customer appointments as far as possible, we note that there will inevitably be circumstances in which urgent operational issues arise that mean we need to cancel appointments at short notice.

The performance data presented in the customer statements that we published between from 2021 and 2023 highlights that we also made a further two GSS payments for failure to restore supply within 12 hours (in addition to the 41 referenced above). However, these payments were due to upstream supply incidents outside of our control and we are currently working with the incumbent to attain reimbursement for their performance on this incident.

9) All companies have, at some point, voluntarily enhanced their GSS. What triggered this decision for your company?

In line with the expectations specified in Ofwat's [NAV policy guidance](#), in any applications that we make for a NAV, we are required to demonstrate that "customers are no worse off than if they had been served by the local incumbent and are adequately protected (the 'no worse off' principle)". As such, we strive to provide an exceptional customer experience that surpasses the service provided by competing water companies and do this by using the end customer prices set by the incumbents as a proxy for our prices and offer further reductions via direct debit, e-billing and volume discounts. Within this context, when the incumbents agreed to voluntarily enhance their GSS following Ofwat's review in 2018, we decided to also mirror these increased GSS rates.

10) Faced with the changes arising from climate change, how should we consider the issue of 'extreme weather'?

We note that the provisions contained in Paragraph 9(6) of the Water Supply and Sewerage Services Regulations 2008 related to 'Entitlement to payment...where supply not restored as promised' specifies that "The undertaker need not pay the customer...if...the undertaker was prevented from restoring the supply by...severe weather". We understand that this exemption is often cited by water companies as a reason not to pay compensation to their customers following an interruption to supply. Clearly, if extreme weather becomes more of the norm, then there is an argument to suggest that this is not exceptional and should not be privy to an exemption. However, we think this is a complex issue that requires further discussion to strike the right balance between protecting customers in the event of an interruption to supply and ensuring that water companies are not unduly obligated to make GSS payments to provide recompense for situations that are beyond their control.