

UUWR_60

PR24 Draft Determination: UUW Representation

Area of representation: Outcomes - Severe water supply interruptions

August 2024

This document outlines our comments in response to the invitation for 'stakeholder views on how [Ofwat] might incentivise companies to reduce the impact of longer water supply interruptions on customers'.

Reference to draft determination documents:

'PR24 draft determinations: Delivering outcomes for customers and the environment'

Section 8.18, pages 104-106

PR24 Update: Performance commitments on 01/08/2024

1. Key points

- **At draft determination Ofwat proposed a new common performance commitment 'Severe water interruptions at or greater than 12 hours' and invited feedback from the sector:** Subsequently Ofwat provided an update stating that there is benefit on further consultation on this proposed measure and how best to incentivise improvements for customers in this area.
- **We welcome the opportunity for further consultation:** We present our initial view on the proposals originally advanced by Ofwat and how this metric could be utilised in future as part of a broader approach to monitoring and incentivising action on severe water supply interruptions.

2. Draft determination position

At draft determination, Ofwat initially proposed a new common performance commitment looking at a normalised measure of company performance for all interruptions greater than 12 hours. The intention was to drive greater focus on severe water interruptions and help drive the right behaviours from companies to fix problems more swiftly.

On 1 August 2024, Ofwat issued an update inviting stakeholder views on 'how [Ofwat] might incentivise companies to reduce the impact of longer water supply interruptions on customers' including 'how best to challenge the sector to reduce long interruptions through the various regulatory tools that we have, which are not limited to performance commitments'.

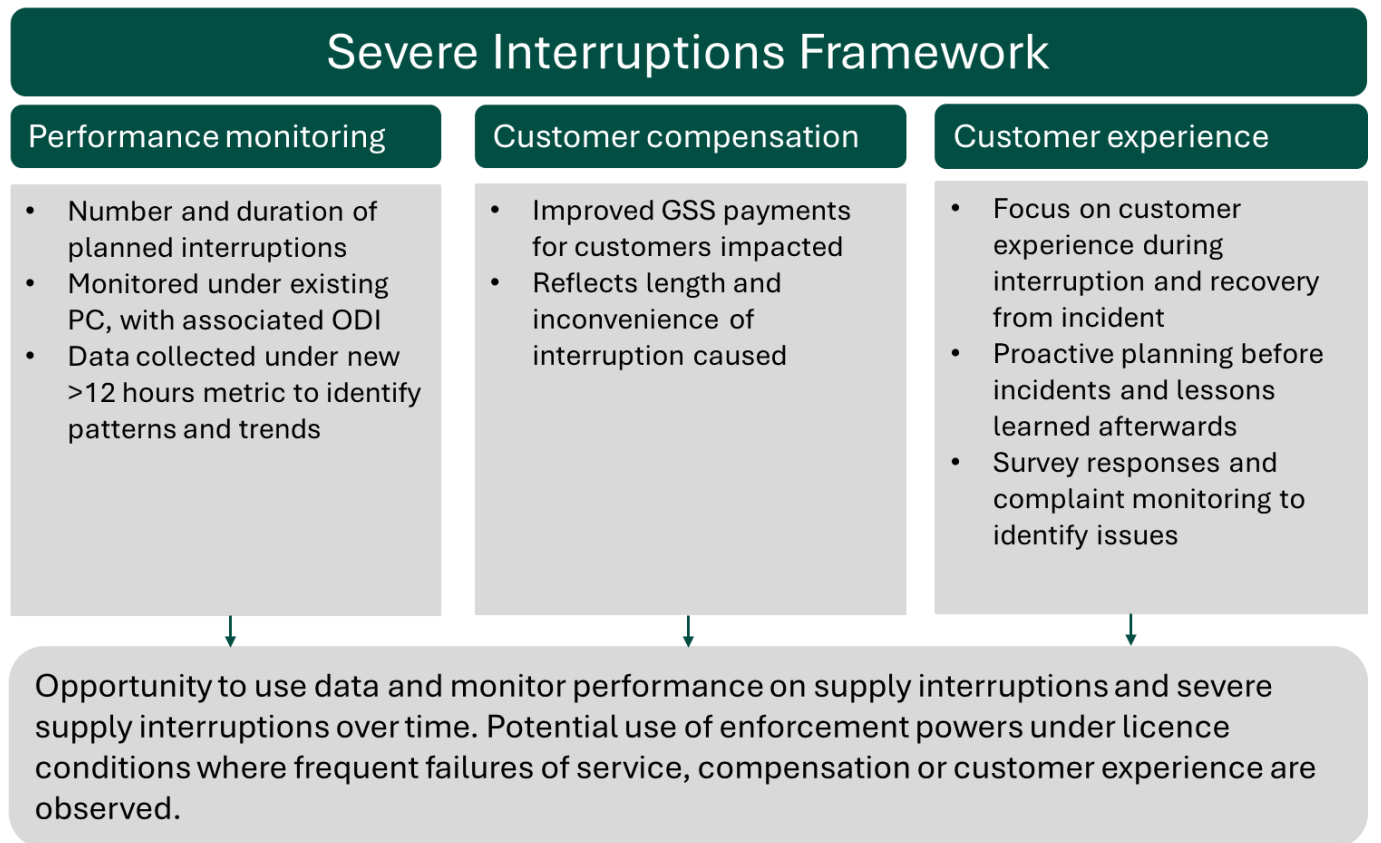
3. UUW response

We recognise that the impact a water supply interruption can have on customers can be particularly significant where this is longer in duration or one of a series of repeated interruptions. We are supportive of more focus in this area to ensure there is confidence that companies are serving customers well.

Severe water supply interruptions should be infrequent events that impact only a fraction of the customer base. This means that their occurrence and impact may not naturally lend themselves to typical performance reporting and incentivisation as is the case with a new standalone performance commitment. We believe that monitoring and incentivising severe water supply interruptions may be better achieved by considering a combination of additional monitoring and use of the broader framework of existing processes and regulatory tools.

We would argue that an appropriate framework consists of three key pillars which look at performance monitoring, customer compensation and customer experience – see Figure 1. Assessment of companies under this three-pronged approach could then be used to assess potential further interventions for the company, if required.

Figure 1: Severe water supply interruptions framework



Performance monitoring

We actively monitor and have long-standing performance data sets for all planned and unplanned water supply interruptions as part of the well-established existing water supply interruption performance commitment. This common measure was introduced following significant industry collaboration to bring together all previous related interruption measures and define a common methodology for reporting.

The number of properties impacted by water supply interruptions of all lengths is measured accurately as part of this existing water supply interruptions performance commitment. The water supply interruptions registers are used to provide accurate data for this measure. This forms part of our regulatory return.

Water supply interruptions performance is showing an overall improving trend. However, there is variability in the measure that is generally caused by significant events such as the 'Beast from the East' and the severe freeze-thaw in December 2022. These significant events do not occur frequently but are of high impact to the customer and we recognise that how these are dealt with will have a lasting impact on customers.

It should be recognised that the vast majority of water supply interruptions are 'one-off' and not repeated events – so-called "high impact/low likelihood events". We acknowledge that penalties should be reflective of repeated events and associated inconvenience for customers.

We noted that, in its draft determination, Ofwat proposed a separate calculation for severe water supply interruptions.

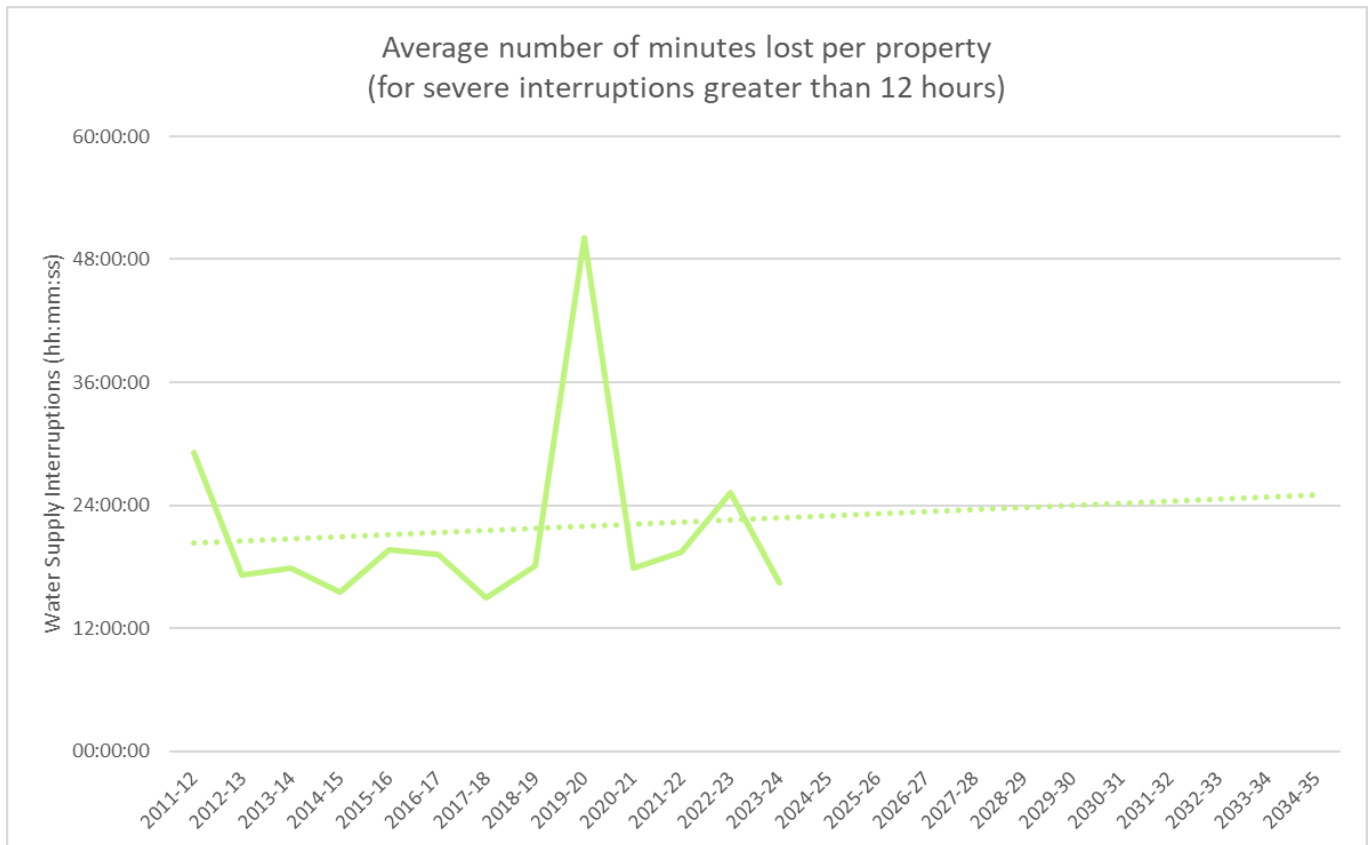
Our review of the calculation concluded that it can helpfully show whether companies are experiencing severe water supply interruptions on an exceptional/occasional basis or whether they are more frequent. We agree with the approach to normalising for the number of properties experiencing the disruption¹.

¹ We do not support a measure for total number of events as this could be punitive for single property interruptions where there is agreement from the customer to delay the repair such as empty holiday properties, properties where the customers have requested that we do not work overnight outside the property.

As shown in Figure 2, we have historic information to at least 2011-12 recording interruption details at 12 hours which can help to provide benchmarking data and customer research/historic willingness to pay research has been conducted using a 12 hour cut off point.

Based on the initial calculation outlined by Ofwat, the UUW data collated for this measure is in line with the broader findings of an UKWIR report discussed below. The UUW historic data shows the very significant impact of major freeze-thaw events against a background of stable to slightly deteriorating position on average for severe interruptions overall. Whilst acknowledging that all interruptions of greater than 12 hours will, to a considerable extent, be event led and individually unpredictable (and, as a consequence, can be challenging to address in a programmatic way), we will focus on stabilising and improving this position through continued approach to short-term mitigations – restoration of supplies through restoration of supplies and repairs, as well as improvements that can be achieved through longer term asset health investments.

Figure 2: Average number of minutes lost per property (for severe interruptions greater than 12 hours)



Source: UUW estimates

Our review of the initially proposed outcome delivery incentive (ODI) had some concerns about the scaling of the incentive and the lack of a performance cap/collar. However, whilst it may not be appropriate to introduce this measure as a separately incentivised performance commitment at this stage, regular reporting against this measure could be a useful diagnostic tool for Ofwat to utilise, alongside the water supply interruptions performance commitment.

For example, Ofwat might be concerned where a company's data showed a larger frequency of spikes such as the one in the graph above, or a sharper upward sloping trend that might be indicative of an increasing frequency of severe events. Reviewing the data would enable Ofwat to observe whether severe water supply interruptions for an individual company were a truly exceptional event or whether they were becoming more normalised. In the event that they were becoming the norm, then further investigation could occur, including using the other two pillars for severe water supply interruptions, with a view to considering whether additional enforcement action may be warranted.

Customer compensation

Our long-standing customer commitments scheme has always been customer focused and seeks to go above and beyond the minimum requirements of the Guaranteed Standards Scheme (GSS). We believe that GSS payments are an effective part of recognising the impact incidents have on customers. We have also made discretionary compensation payments based on customer experience, ensuring that the customer receives a payment that adequately compensates them for the length of the interruption and inconvenience caused.

In October 2023, we responded to the CCW consultation 'Modern standards for a modern sector: Improving how the GSS works for people' setting out our support for review of the GSS to ensure that customers receive appropriate recompense when our service falls below customers' expectations.

On 12 August 2024, Defra launched a new consultation² on updating the GSS scheme with proposed changes including doubling payments and broadening the set of standards that warrant payment.

We support the approach and need to refresh the standards to better reflect customers' expectations and promote consistency across the industry. We will respond to the new consultation within the timescales prescribed.

Strengthening the GSS framework helps to target and address the inconvenience caused to those impacted directly by the interruption. Given that these are high impact but low frequency events, targeted compensation in this way is more appropriate than through a broader performance measure that only benefits customers in the broadest sense rather than those who have been directly impacted. In essence, an ODI led approach would mean that from a customer point of view the high impact/low frequency event is compensated for with a low impact on the generality of customer bills. We therefore see prompt, meaningful and direct GSS payments to those who are most significantly affected by severe supply interruptions as being an important element of ensuring that customers are fairly treated and better targeted than an ODI led approach.

Customer experience

The focus in a water supply event is always to minimise the impact to the customer through restoration of supply in the shortest period of time. We have established incident management procedures in place to ensure that all interruptions are effectively managed to mitigate impact on the customers. Our Integrated Control Centre (ICC) manages all contacts through an event escalation matrix ensuring that the interruption is dealt with as swiftly as possible. This ensures the impact of the interruption is regularly assessed and escalated to an incident as required. This response includes the deployment of Alternative Supply Vehicles (ASVs) to restore supplies to customers whilst the cause of the interruption is resolved. We have a bottled water delivery service to further support customers experiencing an interruption, prioritising customers on the priority services register.

During an event, we proactively keep customers up-to-date using our website and bulk text messages to provide customers with regular updates.

The introduction of the customer-focused licence condition in February 2024 provides an additional layer of protection for customers given that through licence enforcement, serious breaches can result in a fine of up to 10% of company turnover. As Ofwat will be aware, we have assessed sector wide guidance to establish that we are substantially compliant³ with relevant guidelines. It would be a significant concern if we, or any other company, were found to not be treating customers appropriately when they have experienced a serious supply interruption.

We actively seek feedback from customers via customer surveys and 'rant and rave' following each customer contact, and conduct additional research as required to ensure that we can understand and learn lessons to make improvements to customer experience both during and after an event. We are particularly focussed on customer engagement, support for vulnerable customers, lessons learnt and assimilating best practice from across the sector.

² [Consultation on updating the Guaranteed Standards Scheme \(GSS\) - Introduction - Defra - Citizen Space](#)

³ [Customer-focused licence condition - Ofwat](#)

Where Ofwat becomes aware that a company may not be supporting customers sufficiently during the recovery process from the event, then, again, this could act as a further trigger for enforcement action using licence powers. This issue – arising under the third pillar of the framework – could be particularly important where company data was showing repeated failures under the first pillar.

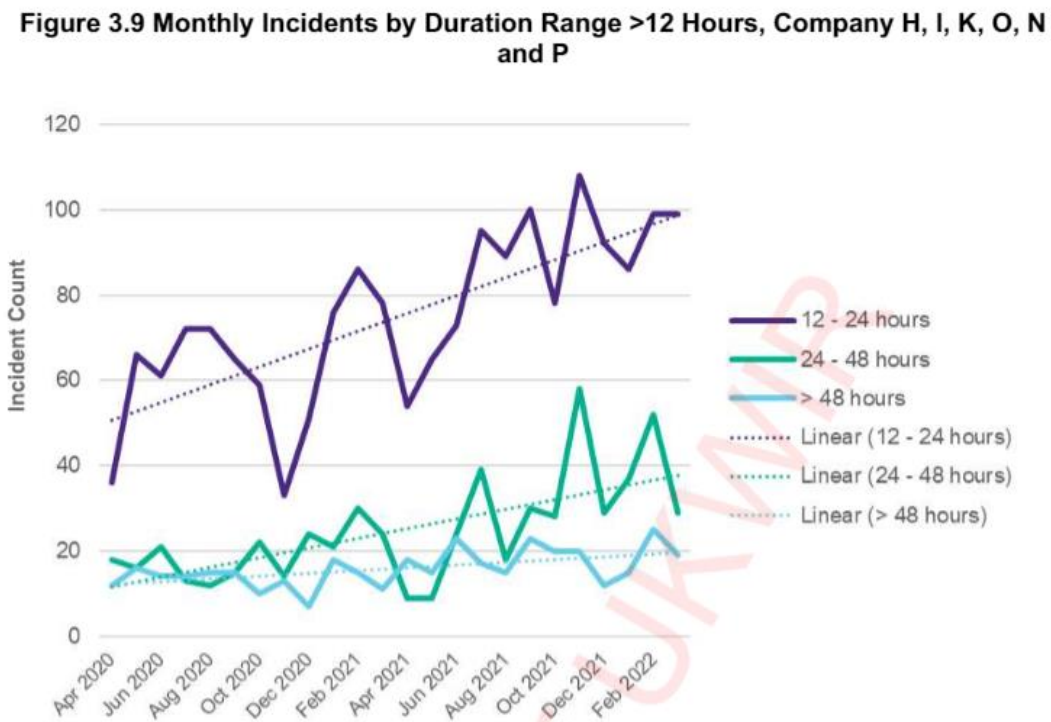
Sector experience and studies

Severe water supply interruptions can be caused by distribution mains failures that are complex to repair as well as larger trunk main bursts. Longer water supply interruptions are typically due to the failure of larger water mains such as trunk mains, and as such further focus in this area could help with long-term asset health focus (i.e. the resilience of trunk mains).

Ofwat references the recently published UKWIR report 'Identifying the root cause of interruptions to supply' stating that majority of water supply interruptions are caused by pipe failure, some of which could take materially longer than three hours to fix.

This report⁴ contains useful benchmarking information⁴ and case studies that illustrates that the trend of severe water supply interruptions is deteriorating – see Figure 3.

Figure 3: Example graph from the UKWIR report showing upward trend in larger interruptions



Source: UKWIR BQ03-B04 Balancing short and long-term interventions to improve water supply interruptions

UUW understands the importance of acting to reverse this trend and therefore proposed the follow-up UKWIR project 'BQ03-B04 Balancing short and long-term interventions to improve water supply interruptions'. This project was highly supported, recognising the importance which the industry places on supply interruptions and the best way to address them. This project is expected to complete in March 2025. It is expected that the findings will enable companies to more efficiently and effectively reduce water supply interruptions, both short and long term and as such the results of this report will support improvements in severe water supply interruptions.

⁴ [IDENTIFYING THE ROOT CAUSE OF INTERRUPTIONS TO SUPPLY \(ukwir.org\)](https://www.ukwir.org/identifying-the-root-cause-of-interruptions-to-supply)

4. Recommendations

We are supportive of improving customer experience through focusing on severe water supply interruptions.

We believe that the complexities of severe water supply interruptions and the associated experience of the customer requires broader consideration than a single metric, such as a new performance commitment.

This could be achieved by strengthening the framework of the existing tools including the revision of GSS with enhanced payments for severe interruptions and providing recommendations as appropriate through the licence condition, as set out in the severe water supply interruptions framework above.