

Price Review Programme Team
Ofwat
City Centre Tower
7 Hill Street
Birmingham B5 4UA

31st January 2014

Dear Sirs,

Service incentive mechanism (SIM) for 2015 onwards – a consultation

We welcome the opportunity to comment on this consultation and the intention to test the resultant SIM design during the coming financial year.

We support the retention of SIM as a consistent national minimum customer service incentive for household customers. Our vision is to be the leading community-focused water company. Our future plans seek to deliver the service which our customers' value and we believe that it is important that SIM evolves to more effectively capture customers' satisfaction of the service they receive.

We believe SIM should continue to apply across the whole value chain with the same asymmetric application of rewards and penalties. However, we think that the mechanism for measurement should evolve so that:

- ... There is a greater focus on qualitative feedback from customers
- ... The focus of the current survey on questions about contact processes is reduced by incorporating alternative robust qualitative measures (e.g. the Net Promoter Score)
- ... There is a single quantitative measure which captures all unwanted contact across all channels

We have answered the specific consultation overleaf. In developing our response we have considered the findings of the UKWIR study: *Options for refocusing SIM towards a measure based only on consumer satisfaction and perception*.

We hope that these comments help with the development of the Service Incentive Mechanism for 2015 onwards. We look forward to seeing the outcome of this consultation.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Christopher Offer".

Christopher Offer

Head of Regulation

SPECIFIC CONSULTATION QUESTIONS

Overall design of the incentive

Q1 To inform the extent of the range for rewards and penalties, we invite views on:

- ... our proposition that the SIM should continue to incentivise service improvements in companies operating below the frontier; and
- ... whether, and if so in which areas, further service improvement by frontier companies should be incentivised – and the benefits of doing so.

Given the timing of this consultation, we would also consider evidence from any company outcomes beyond SIM.

We believe SIM should continue to incentivise service improvements for companies operating both below and at the frontier. This would maintain the focus of the current mechanism in supporting innovation within the sector and delivering better outcomes for customers. We believe all companies should be incentivised to deliver this.

Q2 We consider that the SIM should continue to incentivise service quality throughout the value chain, and not just those elements under the sole control of retail businesses. The implication is that retail businesses would be exposed to the full financial risk of the SIM, which we expect to be passed on to wholesale businesses as appropriate. We invite views on:

- ... the proposition that the SIM should continue to be used to incentivise service improvements throughout the value chain, rather than being focused entirely on 'retail' activities;
- ... how these incentives (and financial risks and rewards) might be passed through from retail to wholesale businesses; and
- ... the proposition that we should leave companies to develop internal 'contracting' arrangements as they see fit, rather than be subject to any prescribed arrangements.

We agree that SIM should continue to incentivise service quality throughout the value chain, and not just those elements under the sole control of the retail businesses. Our engagement with customers has shown that they take a holistic view of their water service. Certainly household customers do not distinguish between 'retail' or 'wholesale' services. We therefore believe that customer satisfaction should continue to be measured and incentivised across the whole value chain.

We believe it is important that companies decide how incentives might be passed through from retail to wholesale businesses. We support the proposition that Ofwat should leave companies to develop internal 'contracting' arrangements as required.

Detailed design questions

Q3 Design issue 1 – symmetric or asymmetric incentive?

We support retaining the current asymmetric financial incentive for SIM which both penalises underperformance and rewards outperformance. We believe that this approach provides robust protection for the interests of customers and includes rewards which are proportionate and affordable.

To confirm, we support **Option 1** – retain current asymmetric structure.

Q4 Design issue 2 – magnitude of financial incentive

We agree with the preference to maintain a financial incentive equivalent to +0.5% and -1.0% of total appointed revenue. See question 3 response.

Q5 Design issue 3 – balance of qualitative and quantitative measures

We would like to see a shift in the balance of SIM towards a more qualitative measure. We strongly believe that a greater emphasis on the qualitative element will more accurately capture customers' satisfaction with the water service which they receive.

With regards to the weighting, we would support a 25% quantitative, 75% qualitative approach, consistent with **Option 2** within the consultation document.

Q6 Design issue 4 – detailed design of the qualitative and quantitative measures

We would like to see **Option 3** tested during 2014/15.

We believe that the quantitative component should measure the number of unwanted contacts across all media channels, with no weighting being applied based on the median of contact. This offers transparency for customers and simplicity for companies. The quantitative measure should be weighting by the number of household connections per company. We support the proposal to test the revised measurement design in this instance. It will be important to ensure that companies are not relatively penalised by the fact they provide simple multiple channel contact points for their customers. The SIM measurement method should not create perverse incentives around customer contact.

The qualitative component needs to be simplified and adapted to improve the measurement of customers' experience. Whilst SIM is effective at measuring customer service our Net Promoter Score and Net Easy Score covers more channels and broadens the insight we can gain from customers to include their experience and satisfaction with their service.

Q7 Design issue 5 – use of absolute or relative performance

We believe that SIM should continue to be based on the current relative incentive structure to continue to drive competition amongst companies and further build on performance improvements realised through the current mechanism. Thus we favour **Option 1**.

Q8 Design issue 6 – non-household SIM design for Wales

As a company wholly operating within England, we do not wish to comment on the design of SIM for non-household customers in Wales.