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**From:** Philip Marshall  
**Sent:** 31 January 2014 17:15  
**To:** Price.Review  
**Subject:** Re: Service Incentive Mechanism (SIM) for 2015 onwards - a consultation

**Categories:** Acknowledgement sent

Dear Sheila,

We have considered the information in your consultation paper on the future of the SIM, taking into account the discussions at last week's workshop, and our views and responses to the questions in the paper are provided below.

We believe that the SIM has worked well in focusing greater attention on service to consumers and as a result, in raising the level of service provided to consumers by water companies in England and Wales. In its current format, however, the SIM has not had very long to become properly embedded, and concerns about the consistency of interpretation and reporting have persisted, undermining the level of confidence in companies' reported performance scores. Whilst we agree that changing the SIM to cover household consumers only seems logical in view of the expected changes affecting non-household consumers, making substantial changes seems to be both premature and unnecessary. We therefore advocate making minimal changes to the mechanism and to the measures for the period 2015-2019.

Q1. We believe that the SIM should and will continue to incentivise companies to improve their current levels of service. This applies both to companies whose levels of service appear to be at the lower end of the scale and companies whose levels of service appear to be at the upper end. There is no need or reason to change the SIM in order to try to incentivise additional service improvements, as the existing SIM does that anyway. Ultimately, it is a matter for companies, their boards and shareholders to decide how much focus and investment they wish to direct at improving service to their consumers.

Q2. We agree that the SIM must cover both retail and wholesale activities. Consumers do not differentiate in this way; they see a single company providing both billing and operational services, and therefore the SIM must reflect this. Applying the financial outcomes of the SIM to the retail activity may well, as some believe, undo some of the good work that companies have done in the last four years to focus the whole business on improving service to consumers, i.e. it may lead to a re-emergence of previous silo behaviours by disincentivising those involved in wholesale activities from focusing on service to consumers. That is, however, a potential consequence of separating wholesale and retail activities, irrespective of how the SIM operates.

Q3. Our customers have told us very clearly that they do not agree with the principle of customers having to pay more to reward companies for performing well or for out-performing. They expect companies to deliver and perform well without needing incentives. Increasing prices to reward companies for improved performance is considered perverse. They do support financial penalties for poor performance though. On that basis, our customers would support option 2. It is clear, however, from its recently published Risk and Reward guidance that Ofwat wishes to see positive incentives, irrespective of the views which our customers has expressed, and therefore we expect the current asymmetric structure (option 1) to be retained.

Q4. If the current asymmetric structure is to be retained, we believe the current range of financial incentives should be retained.

Q5. We believe that the current 50/50 weighting (option 1) should be retained, until such time as the existing SIM has properly matured and issues relating to the consistency of interpretation and reporting have been addressed. This equal weighting ensures equal focus on improving general consumer satisfaction and on improved complaints management to reduce the number of escalated complaints. It should be an aspiration for the industry to move to a

qualitative only measure in the future, and this should be achieved through a phased approach once the level of escalated complaints has reached a sufficiently low level.

Q6. We believe that making substantial changes to the SIM would be both premature and unnecessary. We therefore advocate making minimal changes to the mechanism and to the measures for the period 2015-2019. On that basis we support Option 1 whereby SIM would apply to household consumers only. The test year provides time for companies to introduce separate lines for non-household consumers if they are not in place already, and this will be required anyway before October 2016. We do, however, support further rationalisation of the survey questionnaire and removal of the survey notice period.

Option 2, as written in the consultation document, would mean that written complaints are doubled counted (as both unwanted contacts and written complaints). We understand from the recent workshop that this was not the intention and that unwanted contacts should be defined as excluding written complaints. It is still unclear, however, what is intended in respect of emails, SMS and social media contacts, all of which are written contacts. If they include an expression of dissatisfaction, they would meet the definition of a written complaint, unless they are to be excluded and classified as unwanted contacts. There is no basis to discriminate between these contact types, as all three are quick and easy, when compared to writing a letter, so what applies to one should apply to all three. If this is the intention, then we would consider option 2 to be an acceptable alternative to option 1. The definition of what is reportable in respect of a social media contact will also require further consideration.

Q7. Whilst it means that companies do not have a target at which to aim, we believe that retaining a relative incentive structure is more appropriate than applying an absolute performance level. Concerns remain, however, about the lack of transparency of the performance data reported by companies to date and about inconsistent interpretation and reporting, and Ofwat needs to address this if the level of confidence in the SIM as a relative measure is to be improved.

Q8. We have no comment to make in relation to this question.

I trust that our responses to your consultation questions are both clear and helpful. If you do have any query or require any clarification, please let me know.

With regards,

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