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Price Review Programme Team
Ofwat
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30th January 2014

Dear Sirs

2015 Service Incentive Mechanism Consultation

Welsh Water's response to "Service incentive mechanism (SIM) for 2015 onwards – a consultation" published in October 2013 is outlined below.

Overall design of the incentive

The service incentive mechanism was introduced in 2010 and, as such, we have yet to understand the impact that it has had on incentivising companies (be they frontier companies or those operating below the frontier) in terms of costs incurred and the resulting benefits for customers. Therefore, we believe that the final decision on how the incentive will be designed should wait until SIM performance over AMP5 is known, and rewards/penalties have been applied.

We concur with Ofwat that the SIM should continue to incentivise service quality throughout the value chain. The sharing of risk and reward between wholesale and retail businesses is a matter for companies to determine.

Detailed design questions

As we mentioned above, we believe that it would be more appropriate to assess the overall design of the incentive once AMP5 SIM performance is known. In answer to the specific design points raised:

- *Design issue 1 – symmetric or asymmetric incentive*
We support retaining the current asymmetric incentive.
- *Design issue 2 – magnitude of financial incentive*
On the basis that our plans for PR14 assume a continuation of the current magnitude of financial exposure under SIM, we support maintaining the current arrangements.
- *Design issue 3 – balance of qualitative and quantitative measures*
We support option 2, however we believe that the qualitative measure should include all contacts, and not just those which are resolved, as this will remove any subjectivity within reported performance.

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We welcome correspondence
in Welsh and English

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- *Design issue 4 – detailed design of qualitative and quantitative measures*

We believe there are merits associated with all options under consideration. However we would like to highlight that, in relation to proposal considered in option 2, collating the survey data is system dependent and typically involves generating multiple reports with considerable manual effort. Therefore survey data cannot be provided instantaneously and some notice will be required.

- *Design issue 5 - use of absolute or relative performance*

We support a continuation of the current relative approach to measuring performance as we believe that the lack of an absolute target incentivises a company to achieve the levels of service that customers value, rather than tactically aim for an absolute performance threshold.

- *Design issue 6 - non-household SIM design for Wales*

We support the introduction of a non-household SIM in Wales; however it is important that we select an appropriate benchmark. We do not consider all household retailers' SIM scores to be a comparable measure. As we suggested at the workshop held in Cardiff to discuss non household retail price controls last year, we propose that the level of service should be measured the by reference to the outcomes and measures of success such as we have proposed in our business plan, that is business customer satisfaction ratings and overall performance against other utilities

We note your intention to hold a workshop to discuss the Welsh aspects of the Service Incentive Mechanism (for non-households in Wales) and we look forward to that opportunity to discuss the options for the non-household SIM with you.

Yours faithfully



Samantha James
Finance Director, Dwr Cymru Customer Services Ltd