



Options for a NHH SIM in Wales

28 February 2014

Objective of today's workshop



To facilitate discussion of **SIM** consultation proposals specific to the **NHH SIM** for companies wholly or mainly in **Wales**

Agenda:

- What we said in our methodology statement
- What we said in our SIM consultation document
- What respondents to our consultation document said
- Why we are proposing to change the SIM and what it might mean for a Welsh NHH SIM:
 - Measuring service delivery
 - Comparing service delivery
 - Incentivising improvements in service delivery
- Next steps



Our methodology statement confirmed that in England, **we will use the Guaranteed Standards of Service (GSS) to define the default level of service for non-household customers.** This provides a backstop form of protection for non-household customers where we expect market forces to ensure that they receive a good deal.

GSS will continue to apply in Wales, but as most non-household customers in Wales are unlikely to be able to choose their supplier, **we will strengthen the protection for those customers by introducing a separate non-household SIM for Wales.**

We consulted further in the autumn ...



Question 8 in **our consultation sought views on two options** for the incentive comparator for the Welsh company NHH SIM:

- Option 1 – to compare the NHH SIM score against the HH SIM scores for England and Wales
- Option 2 – to compare the NHH SIM score against an absolute threshold level

We described our plan to **use the same set of qualitative and quantitative measures as in the HH SIM**, but invited comments on any appropriate additions or modifications

We described **sample size issues** for the proposed qualitative SIM metrics and sought views on three potential solutions:

- More frequent surveys
- Surveying all NHH customers rather than just those that contact the company
- Combining samples across years



One Welsh stakeholder supported Option 1 – to compare NHH SIM with HH SIM and setting a financial incentive from that (on broadly similar basis to now). They also considered that the option to sample from all customers rather than just contactees was a reasonable solution to small contactee sample size. They considered this preferable to sampling from more than 1 year since that could mask trends.

Another Welsh stakeholder suggested that NHHs have a different perspective to HHs, and are mindful of sampling these customers fairly (i.e. recent to contact and not disproportionality or differently to other companies and in relation to water services only).

Another Welsh stakeholder proposed their own NHH outcome based on a customer satisfaction survey that they already do (with a financial penalty if they don't meet their set target). They do not consider comparison to HH to be fair. They provided details of surveys with their Business Plan.



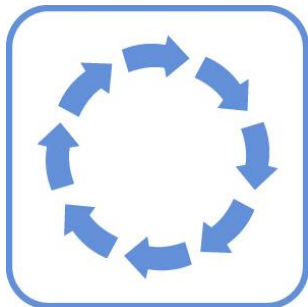
Most English companies did not comment on the Welsh questions.

Of those that did, one company suggested that comparing NHH with HH was not so bad since most NHH are small and have needs similar to HH. Two other companies also supported the HH/NHH comparison approach.

In contrast, one company considered HH and NHH needs are too different to compare

A non-company stakeholder suggested a comparison of NHH complaint rates and noted that NHH complaints will continue to be collected and so information would be readily available

Reasons for changing the SIM



Our stated **reasons for changing the SIM** overall were to:

Reflect different choices and services for household and non-household customers

Reflect customer changes – use of a wider range of customer contact channels

Further improve data comparability

All of these continue to apply for a NHH SIM measure



Data on **HH and NHH customer contacts** will need to be **separated** to provide a HH SIM for comparison across companies

We don't consider that the effort required for customer data separation is any different for Wales to England

What the testing will need to consider is **how the NHH data set is different to the HH data set for Welsh companies** – this will then provide basis for sensible/proportional use of the NHH data

What is already known about contact volumes from different customer groups?

To what extent are WSH and DVW providing a separate / different / tailored service to their NHH customers?

Measuring service delivery – NHH SIM in Wales (II)

Based on the SIM survey to date, business customers for Welsh Water are slightly less satisfied than domestic customers – but note samples size since the survey was not designed to quota on customer type, but to reflect contact rates – so difference could well be within statistical noise ...

		No. surveyed	Survey score	SIM score
Industry	Total	62,285	4.4	42
	Domestic	58,810	4.4	42
	Business	3,475	4.1	39
Dee Valley Water	Total	2,886	4.5	44
	Domestic	2,725	4.5	44
	Business	161	4.5	44
Welsh Water	Total	3,007	4.5	43
	Domestic	2,866	4.5	43
	Business	141	4.1	38



Possible **options** for measuring service delivery include:

- **Company outcome** – this would involve measuring performance based on the outcome proposed by one of the Welsh companies
- **Ofwat NHH SIM** – this would involve measuring service delivery based on what is proposed for the HH SIM for England and Wales
- **Quant option variation** – this would involve varying the current quant measures to focus on complaints data only
- **Qual option variation** – this would involve varying the current qual measure to use the WSH ODI NHH customer survey

Measuring service delivery – NHH SIM in Wales (IV)

Possible options	Pros	Cons
Company outcome		Company specific, not proposed by both companies
Ofwat NHH SIM (Option x same as HH measurement)	Measuring quant and qual on same basis as HH is simpler to administrate/understand and gives benchmark to HH	Perception that NHH are inherently less satisfied than HH regardless of what company does
Quant option variation	Use complaints only HH vs NHH analysis CCWater expect to be doing this anyway, provides Industry benchmark	Suggests other quant measures aren't important
Qual option variation	Qual – streamline with WSH ODI NHH customer survey, periodically measures all customers (could help with sample size issue)	Would DVW be comfortable with this?



An additional measurement issue surrounds **sample size** for qualitative measures

Our SIM consultation sought views on **three potential solutions**:

- More frequent surveys
- Surveying all NHH customers rather than just those that contact the company
- Combining samples across years

What are the relative merits of each of these potential solutions ?



If the SIM is measuring

1. Quant – ie how often customers need to make contact (failure demand) and
2. Qual – ie how well that contact is handled (customer satisfaction)

Customer needs and expectations might be different, but if companies deliver on these then there is no reason to suggest that NHH are for example inherently less satisfied or more likely to complain.

Why shouldn't HH be comparable to NHH (with normalising for different volumes)?



Possible **options** for comparing service delivery include:

- **Absolute (company set)** – this would involve comparing company service delivery against an absolute performance level to be set by the company
- **Absolute (Ofwat set)** – this would involve comparing company service delivery against an absolute performance level to be set by Ofwat
- **Comparative** – this would involve comparing company service delivery in relative terms

Comparing service delivery – NHH SIM in Wales (III)

Possible options	Pros	Cons
Absolute - company set	WSH ODI does this (have a few years of data to do this from their own survey)	Application for DVW (no historic data)
Absolute - Ofwat set	Might be simpler and fairer given fewer comparators - could set as no deterioration for example	HH likely to be comparator, what level would/could absolute be set at?
Comparative	Similar method to HH	Limited benchmarking. View that comparing HH and NHH is not fair/representative

Why shouldn't HH be comparable to NHH (with normalising for different volumes)?



How should NHH SIM be incentivised?

Reputational or financial?

WSH – proposed NHH customer satisfaction ODI has financial penalty

Other financial challenges will exist for NHH (ie the efficiency challenge)

Is a reputational incentive on NHH SIM enough?



Possible **options** for providing an incentive include:

- **Financial (Ofwat set)** – this would involve a financial incentive to be set by Ofwat and which would mirror the HH financial incentive in proportional value (based on NHH performance)
- **Financial (company set)** – this would involve a financial incentive to be set by the company
- **Reputational (Ofwat 'reporting')** – this would involve a reputational incentive only via Ofwat reporting on service levels across companies

Incentivising service improvements – NHH SIM in Wales (III)

Incentive type	Pros	Cons
Financial - Ofwat set - Mirroring HH financial incentive in proportional value (based on NHH performance)	NHH SIM has same aim as HH SIM - protecting customers who can't chose - so potentially easier for customers to understand an even application of the incentive	Overlap with company financial incentive
Financial - company set	WSH ODI does this (financial penalty if do not deliver on own outcome -)	? DVW
Reputational - Ofwat 'reporting'	Gives more scope for context, could co-exist with company financial ODI	Would it be a strong enough incentive / protection for customers

Is a reputational incentive on NHH SIM enough?

Next steps



Shape of SIM incentive will be confirmed on 10 March with pre-qualification risk and reward announcement

Detail of measurement method - later in March