

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

Introduction

This is Sembcorp Bournemouth Water's response to the Ofwat's consultation on the SIM mechanism for 2015 onwards.

We welcome the opportunity to comment as we recognise the benefits of a universally comparable system of customer service throughout the industry. The existing SIM has driven improved customer service and as such has met its original objectives but we agree that the process needs to evolve to meet customers' changing needs. This consultation should help the industry further enhance its approach to customer service.

Consultation questions

We have responded to the specific questions as requested.

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*

Comparative performance measurement (and publication) is now a well established practice within the industry and more importantly it is has helped water companies to focus on continually improving their performance and compare themselves with their peers. Importantly, published comparative performance allows other stakeholders to make comparisons and challenge management teams in poorer performing companies.

Whilst the industry also needs to compare itself with other consumer and utility companies it is difficult to use 'net promoter scores' as loyalty in other utilities is clearly measured by the ability to switch. Most domestic customers will not be able to differentiate between water companies as they only have knowledge of their current supplier.

Therefore the incentive needs to be for both the successful and less successful performers.

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

We have focused on excellent customer service which has an outcome of a strong SIM score.

Our SIM score is not necessarily the driver for us to deliver excellent customer service (it is our company ethos) and therefore our actions are driven by what is best for the customer; but SIM measurement does record and monitor our efforts in this regard.

Other outcomes will be reflected in excellent customer service.

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.

One of the successes of SIM is to capture a measure that covers all of a company's service activities from billing enquiries to responding to leaks and operational concerns.

The customer does not and will not differentiate between a retail and wholesale part of a business.

Therefore for these reasons the SIM should measure the performance of the whole value chain.

How these incentives (and financial risks and rewards) might be passed through from retail to wholesale businesses.

The proposition that we should leave companies to develop internal 'contracting' arrangements as they see fit, rather than be subject to any prescribed arrangements.

As the two questions above relate to similar issues we feel that a combined reply is more relevant.

Response

We completely agree with the proposition that companies should be free to develop internal 'contracting' arrangements.

As integrated businesses companies should have strong service level agreements with their internal supply chains. On an operational basis these are already in place however the split between wholesale and retail will require further consideration to ensure an appropriate pass through of risk and reward.

We already have to deal with the impact of our contractors activities on the service to customers, especially those working on the repair and maintenance of our distribution network. We do this successfully and the method of incentivising the contractors does not need to be prescribed. Companies may use innovative ways to achieve excellent overall performance and the principle of the approach with contractors can be applied to services between wholesale and retail parts of the business.

All parts of the value chain within a water company will suffer if customer service deteriorates and benefit if customer services improves. Prescribed arrangements by the regulator could prove restrictive and deter innovation.

Q3 *Design issue 1 – symmetric or asymmetric incentive?*

The options we are consulting on are:

- *option 1 – retain current asymmetric structure;*
- *option 2 – remove upside potential entirely (for example, no upside; retaining the downside of up to 1% of revenue); or*
- *option 3 – move to a symmetric incentive (for example, upside and downside both up to 1% of revenue).*

Our preferred option is Option 1.

This has been a successful incentive for performing and under performing companies that has been able to differentiate between them clearly.

While, there could be an argument that the best performing companies do not need a regulatory incentive to continue driving improvements, we believe that the current relatively small uplift for the best does work. Even the best teams like to feel recognised! We do agree that any penalty should be larger than any reward, so as to send stronger messages to poor performers (and those watching their performance).

Q4 *Design issue 2 – magnitude of financial incentive.*

Our current preference is to broadly maintain the current magnitude of financial exposure under the SIM in the range of +0.5% to -1.0% of total appointee revenue. (Dependent on responses to questions 1 and 2.)

Do you agree with this approach?

Yes.

We believe that this approach would continue to, in principle, mirror how open markets would behave.

Q5 Design issue 3 – balance of qualitative and quantitative measures

The options we are consulting on are:

- *option 1 – retain the current 50/50 weighting;*
- *option 2 – shift the balance more towards qualitative measures (for example, 75% qualitative/25% quantitative);*
- *option 3 – remove the quantitative measures entirely;*
- *option 4 – shift the balance more towards quantitative measures (for example, 25% qualitative/75% quantitative);*
- *option 5 – remove the qualitative measures entirely.*

Our preferred option is Option 1.

While we can see an argument that in the end satisfaction as measured by survey is all that matters, and where a company fails to answer the telephone, the dissatisfaction would be reflected by the customer's response to a survey, the 50/50 weighting has for the last four years effectively captured customer perception of the company approach to their concerns and issues in tandem with specific measures that can be reported. We recommend no change.

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

Please provide your views on the various options presented in detail in section 4.4.

Our preferred option is Option 2 as shown in table 1 of the consultation document.

However we believe it is still appropriate to retain the abandoned and call busy measure. Technology is now mature in this area and can capture all the data a company needs to be able to report it.

To remove it on the grounds that some companies cannot report it easily would suggest a reduction in the service being offered to the customer. We firmly believe that a major frustration for any customer when contacting a call centre is for the phone not to be answered and a clear simple record of this is the abandoned measure that is used as a standard matrix in a large number of call centre environments alongside other more complex measures.

Measuring abandoned over 10 seconds took some time to refine and this is an effective measure we adopt and feel should be continued. However not reporting abandons under 10 seconds should remain as these are often abandoned by the customers themselves and not because of any Company issue.

Q7 Design issue 5 – use of absolute or relative performance

We invite views on:

- *option 1 – retaining the current relative incentive structure*
- *option 2 – using absolute performance levels to set rewards and penalties (with suggestions of how we might set these).*

We support option 1. We believe relative performance has been healthy and successful for the industry incentivising companies to incrementally improve performance to reach the top and remain there year on year. Monitoring of relative performance keeps companies guessing about how their peers are performing, which we believe strengthens the incentive because we cannot predict with any certainty the ranking until it is published. The former measure of overall service (the OPA), was an absolute measure whereby we could calculate exactly what was required for us to achieve the maximum score and hence be guaranteed to be top or equal top in the ranking. The inability to do this with the SIM promotes healthy competition between companies.

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

We are seeking views on two options for the incentive comparator for the Welsh company non-household SIM.

- *option 1 – to compare the non-household SIM score against the household SIM scores for England and Wales; or*
- *option 2 – to compare the non-household SIM score against an absolute threshold level.*

We invite comments on any additions or modifications that would be appropriate to the household SIM methodology for its use for non-households, including dealing with sample size issues from smaller customer bases.

We do not have any comments to make on these two options.

Final comment

One final observation, not specifically mentioned in the consultation document is the importance of horizontal auditing of the SIM.

Once the final design of the SIM has been decided upon following this consultation we firmly believe that consistent reporting across the industry will only be robust if the practice of horizontal auditing is utilised. We suggest this should be bi-annually.

*Sembcorp Bournemouth Water
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