

## **South West Water response to OFWAT's SIM Consultation**

**Question 1.** We agree with OFWAT's proposition that the SIM should continue to incentivise service improvements in companies operating below the frontier. Further incentivisation of further improvements by frontier companies will result in customers having to pay more for service improvements beyond the frontier, so it needs to be clear that any such incentives are fully supported by customers' willingness to pay.

**Question 2.** We agree with OFWAT's 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.

**Question 3.** We support Option 1, retaining the current asymmetric structure. It is important that there are rewards available for customer services as well as penalties, as this reflects what would happen in a competitive market from good/poor quality of service.

The OFWAT PR14 methodology also emphasised through considering the Return on Regulated Equity (RORE) that rewards as well as penalties should form part of a regulatory framework that protects customers and provides the potential for greater rewards to shareholders for good performance. Our customer research at PR14 suggested that customers supported an incentive framework that included both rewards and penalties for customer service performance.

With the absence of competitive market choice for households and the current existing high level of customer service in the industry, we think that it remains appropriate for their to be a higher percentage downside than upside. Experience during 2010-15 to date suggests that such an asymmetric range does not necessarily result in actual rewards and penalties being asymmetric – the lower potential for upside than downside performance means that companies may will congregate within 1 standard deviation of the mean, which results in rewards and penalties mostly being between +/- 0.5%.

**Question 4.** We agree that the current magnitude of financial exposure under SIM should remain in the range +0.5% to -1.0% of total appointee revenue. This is an approach we assumed in considering a balanced package of incentives in our PR14 business plan and therefore we believe it remains appropriate. This conclusion should be reviewed as part of the PR14 decision process as it remains an important part of the overall balance of risk and reward between customers and shareholders.

**Question 5.** We believe the current weighting of 50/50 between qualitative and quantitative performance should be maintained. It is our view that the quantitative element has expedited the implementation of innovative solutions and customer service enhancements across the industry. This is demonstrated by the improvements in SIM scores against the quantitative criteria. We believe that this is positively balanced by the qualitative element and the equal weighting given. Should the weighting be re-balanced in favour of the qualitative element only, combined with a streamlined survey approach, this may have an unintended negative customer service impact.

**Question 6.** South West Water in the main concur with the OFWAT recommendation. We would however ask for consideration to be given to retaining the all lines busy and calls abandoned measures and that social media contact types are not included as unwanted phone contacts at this time. Our preferred options are highlighted in the table below along with our rationale:

Option 0 (current SIM)	Option 1	Option 2	Option 3
All lines busy and calls abandoned	Retain (pro rata where lines for household and non-household shared)	Remove	Remove
Unwanted phone contacts	Retain	Retain and add unwanted contacts from all media types	Remove – replace with complaints from all media types
Written complaints	Retain	Retain	Retain
Escalated written complaints	Retain	Retain	Remove
CCWater investigated complaints	Retain	Retain	Remove
Survey of satisfaction with handling of recent transaction (or series of transactions) all media types – resolved contacts	Retain for households	Retain, streamline to remove transactional questions, retaining key satisfaction and experience driver questions Retain resolved contact No notice period for survey	Replace with survey of consumers' perceptions and views of water company (sample contactees – but at any stage of transaction)

### All Lines Busy and Call Abandoned;

South West Water would recommend the retention of the all lines busy and calls abandoned measure (Option 1). We believe that this is a broad measure of ease of contact and as such is a measure of service provision which drives the correct behaviours, in comparison to other utilities, which are valued by customers.

### Unwanted Phone Contacts;

The Company do not believe that contacts from all social media types as a measure of “failure demand” should be included within the SIM. In line with all companies across the utility and wider commercial sector South West Water continue to review and enhance the offering of multi channel communications (social media). This is to both match to demographics and demand and also improve customer engagement.

If the advertisement of a social media link via the website, or for example on a bill, could increase unwanted contact volumes (ease of complaint via social network such as Twitter) it is possible that it may encourage Companies to remove social media contact options. This would be a backward step in the aims of the SIM which is to incentivise continued innovation and improve overall customer service.

It has also been observed that through social media channels that a singular issue for one customer can be easily supported by friends or followers. This significantly would increase complaint volumes through re-Tweets etc and careful consideration and an explicit guidance would need to be provided as to how these are counted. In addition the relative anonymity of social media contacts would need to be considered.

For the above reasoning the Company would challenge the inclusion of social media contacts as an accurate measure of customer service at this time.

**Written Complaints;**

Option 2 (retain in line with the Ofwat recommendation)

**Escalated Written Complaints;**

Option 2 (retain in line with the Ofwat recommendation)

**CCWater Investigated Complaints;**

Option 2 (retain in line with the Ofwat recommendation)

**Customer Experience Survey;**

We support the recommendation of a streamlined customer experience survey where resolved contacts only are submitted.

**Question 7.** Ofwat recommend retaining the current incentive structure; Option 1 as opposed to implementing an absolute measure to set rewards and penalties. South West agree with this approach as there is no data available at this time with regard to household customers only to set a minimum target. Should this option; Option 2 be implemented there is a risk of disproportionate regulatory action being taken should minimum targets not be achieved. We consider that the existing mechanism has driven significant material improvement across the industry and therefore should be retained.

**Question 8.** The company at this time do not have a view on the design issue of non-household SIM design for Wales.