

Our ref: JD/Library/Ofwat

Your ref:

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Dear Sheila

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

We welcome the opportunity to respond to the consultation referenced above.

We would first highlight the positive impact that the SIM has had on customer service in the water industry since its full implementation in 2011. It has recognised that customers need to be the focus of all activities by water companies, and that their views on our service are an important and relevant barometer of how successful we would be if we were in a truly competitive market. At Sutton and East Surrey Water, the introduction of the SIM made us reflect on the service we were providing, and accordingly, we have now amended or introduced many processes that help to ensure that customers are kept informed and that their expectations are more likely to be met.

We acknowledge that the SIM needs to change for the forthcoming regulatory period due to the introduction of market reform for non-household customers. However, we see this as an ideal opportunity to take stock of what has worked well and not so well from the existing SIM, and to address this to make certain that we have a consistent and relevant measure for the future.

We advocate a reduction in the scope of the quantitative components including the removal of the 'abandoned calls' and 'all lines busy' counts. We acknowledge the concerns raised by some companies about the subjective nature of telephone complaints. Whilst there will be some inconsistency with the data provided by each company, we believe that it will not be any worse than may exist in the current dataset. There is also a significant benefit to us in terms of data collection if we just had to collect telephone complaints and not deduce 'unwanted calls'.

On the qualitative side we support a change from the existing questionnaire, and suggest that this should be by starting afresh rather than 'tweaking' what we already have. We believe that the basis of the survey used in the recent UKWIR project is a good place to start for formulating the questionnaire suitable for the SIM in 2015-20. We also think that



the survey should include 'any contacts' rather than only resolved, purely for the basis of simplicity in data collection and greater consistency in sample. It will also enable a small company like us to collect a suitable quantity of sample data from a shorter period.

Our responses to the specific questions you have raised are provided in an annex to this letter. In summary, we believe that the SIM for 2014/15 should be based on Option 3 of the proposals included in the consultation.

If there are any points you would find it helpful to explore further, we would be pleased to do so.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Downer', with a long, sweeping flourish extending to the right.

Jeremy Downer
Head of Customer Services

Annex

Sutton and East Surrey Water Responses to Specific Consultation Questions

Q1 Should the SIM focus on incentivising innovation and out performance or bringing poor performers up to an acceptable level ?

We believe that the incentive component of the SIM has been a key part of its success in the current period. Whilst it is possible that some of the activities undertaken by companies may have been driven more by the financial and reputational incentive itself rather than purely to improve customer service, there is no doubt that the overall outcome has been positive for customers.

We expect to be at the higher end of the performance scores for the current period, and also expect that our annual score for 2013/14 will be approaching those of the highest performing companies in previous years. But we believe there is still scope to improve performance further and hence, based on the success of the current measure, we think the incentives basis should be retained. We also believe that the retention of the incentive for higher performing companies will help to sustain the business case for even further improvements in the following period.

As outlined above, we believe that there remains scope to incentivise companies at the frontier and those who are on 'catch up'. Accordingly, we have included the SIM as both a financial and reputational incentive in 2015-20.

Q2 Should the SIM be focused upon customer-facing retail issues or continue to cut across the whole value chain ?

We agree with the preference expressed by Ofwat that the SIM should pick up issues that reflect both retail and wholesale activities and outcomes. We believe this for two main reasons. Firstly the customer has no concept of the retail and wholesale components and will refer to the services provided by the water company rather than its constituent parts. Secondly, it is up to the Retail part of the business to drive the performance of the Wholesale part in the same way as it would in an entirely competitive world. The success or failure of the Wholesale service should be recognised in Retail, and a reward or penalty passed on in accordance with agreed performance levels. Therefore there should be no need to diminish the scope of the measure, and its reach should be retained as per current.

Based on the above we believe it should be for each water company to determine the arrangements for incentivising performance across the 'value chain' and how any rewards (or penalties) might be distributed.

Q3 Design issue 1 – symmetric or asymmetric incentive ?

We believe that the incentive should remain asymmetric. We have reflected this in the incentives included within our Business Plan submission.

Q4 Design issue 2 – magnitude of financial incentive ?

We believe that the incentive should remain at the scale used in the current Business Plan process.

Q5 Design issue 3 – balance of qualitative and quantitative measures ?

We believe that the incentive should remain consistent with the current basis ie a 50:50 split. This is linked to our response to Q6 in which we state our preference for an amended SIM based on Option 3 including the removal of the majority of the quantitative components with a single 'complaints' metric only. In this situation the 'complaints' measure retains importance because it is clearly a failure of the service being provided. The overall level of satisfaction, in both a situation and its potential resolution, would be reflected in the qualitative component which is equally as important.

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

We believe that the incentive should be based on Option 3 of the proposals included in the consultation.

We believe that using a simple complaints metric for the quantitative component has significant benefits compared to the existing measure when considering the burden of data collection. We identify all telephone complaints as part of the existing 'unwanted calls' parameter and don't see any issue with incorporating these with all written and other complaints for the quantitative measure.

We believe that the customer survey for the qualitative measure should be started afresh and should not be based on the one currently used for the 2011-14 period. We consider that a good basis for the new survey is that included in the project currently being carried out on behalf of UKWIR. However, we would expect that this would also benefit with review by all companies and Ofwat before it is introduced. The conclusions of that study should also be considered in defining the survey that is ultimately introduced, in particular the comments regarding the necessity for questions indicating 'customer effort' and 'ease of contact'. It may also be better to widen the scoring system in the qualitative component as has been done in the UKWIR project, as this will again provide more scope for distinguishing relative performance.

Q7 Design issue 5 – use of absolute or relative performance ?

We believe that performance should continue to be assessed as a relative measure. However, equally important is the ability for Ofwat to make a clear distinction between the relative performance of each company and that will depend on the scoring used. The range will be particularly important. If, as now, the qualitative scores are compared based on a full range of 1-5 then there will be considerable bunching at or around the frontier and no real distinction will be identifiable. The current approach for the quantitative measure is to use the range of company performance in the test year as the full range for the scoring system (ie 0 – 600). In this way there are noticeable differences between the better performers compared to those with lower scores. We believe it is important that this is accommodated by Ofwat's proposed approach for 2015-20.

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

We do not have any specific views on the best way to incorporate non-household customers in Wales into the revised SIM.