

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

## Response from United Utilities Water

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### 1 INTRODUCTION

United Utilities Water is pleased to have this opportunity to comment on Ofwat's consultation on the service incentive mechanism for 2015 onwards.

Our key observations are that we agree with Ofwat that :

- Incentives and penalties for the SIM should be retained for the next regulatory period.
- SIM is a measure of customer service for the whole water and wastewater organisation and therefore the metrics should extend through the value chain and not just cover those elements within the sole control of the retail business.
- Option 2 is the preferred option. Within our commentary below we have highlighted some detailed suggestions to further enhance this option.

We agree that the Service incentive mechanism has had a very positive impact on the industry and customers have benefitted as a result.

### 2 OVERALL DESIGN OF THE INCETIVE

#### Q1 To inform the extent of the range for rewards and penalties

We agree with the proposal that service improvements should continue to be incentivised.

#### Q2 We consider that SIM should continue to incentive service quality though out the value chain and not just those elements under the sole control of retail businesses.

We agree with this proposal. Customers have one relationship with the company and wholesale activities impact their end to end experience. We therefore believe companies should agree their own approach for internal contracting arrangements rather than be subject to any prescribed arrangements.

### 3 DETAILED DESIGN QUESTIONS

#### Q3 Design issue 1 – symmetric or asymmetric incentive

Our recommendation is to move to a symmetrical approach to the incentive, as is proposed for other outperformance incentives in the price review.

#### Q4 Design issue 2 – magnitude of financial incentive

The convergence of company positions after almost three years of SIM means that even very few failures could have a very significant impact on a company's relative position in the rankings. We recommend that there should be an increase in the volume of qualitative surveys undertaken in order increase the robustness and statistical accuracy of the results. If this approach were adopted, then we believe that an incentive or penalty equivalent to one percent of service turnover would be appropriate, on a symmetric basis.

If the decision were taken to retain surveys at current volumes then we would consider an incentive or penalty equivalent to half of one percent of service turnover to be more appropriate.

**Q5 Design issue 3 – Balance of qualitative and quantitative measures**

We believe that a stronger weighting should be given to customer opinions on the service they received. Therefore we would support either full removal of the quantitative SIM measure or a move towards a balance of 25% quantitative and 75% qualitative.

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

We agree that the preferred choice should be Option 2. Our assessment of and recommendations for Option 2 are as follows:

We agree that it would be appropriate to simplify the qualitative survey. This will provide a better customer experience for those customers taking part in it. The current survey is too long, with the key regulatory question being question 60.

We would support reinvestment of the financial benefit of reducing survey length into increasing the survey size. Increasing the volume of customers surveyed will help deliver a more robust sample size. At a functional level per quarter, the sample could be more statistically robust; the current error rate is circa 10%. We would like to see a minimum of 400 surveys per quarter.

We support the proposal to retain the resolved contact set rather than moving to all contacts.

We welcome the proposal to move to a zero notice period for the survey.

We believe that measurement of “Telephone – all lines busy and abandoned calls” is an important part of the customer experience and believe it should be retained within the SIM methodology. In our experience, a strong focus on abandoned calls has led to a very positive customer reaction. We believe companies should be capable of counting abandoned calls by commercial customers. If this is not possible then a statistical pro rata approach could be applied in order to exclude business customer contacts.

We agree with the approach to retain the unwanted contacts, written complaints, stage 1 and 2 and CCW investigations. We would welcome the opportunity to discuss the complaint and first contact classification guidelines, and explore incorporating the customer’s opinion on whether the customer believes they are making a complaint.

We agree the future methodology needs to recognise all contact channels. However we consider that it is appropriate to exclude those channels where the customer’s name and address are not available.

Turning to Option 3, if a qualitative measure using a number of indicators such as net promoter score, customer effort and service quality were used then we need to be confident the combined single score from such surveys is comparable.

We also note that Option 3 recommends surveying all contacts and not just resolved contacts. If this approach is taken forward then it would be important to ensure consistency in the number of customers surveyed at each stage of the customer experience to ensure comparable results. As the measure is for regulatory comparative purposes, consistency and comparability of data are essential. The activity of learning more about the end to end customer service and the satisfaction level at each transaction stage is the responsibility of each of the companies. We would be pleased to discuss this in more detail if this would be helpful.

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

We agree that a relative performance metric will continue to drive overall customer improvements. As performance continues to improve there is the potential for companies to receive a penalty based on comparative performance when the base level of service is of a high standard. We believe only penalising those companies who are significantly different from the industry average will appropriately alleviate this risk. A scenario of companies achieving >90% customer satisfaction but receiving a penalty based on relative position would seem an inappropriate outcome from the SIM.

If the quantitative element of the SIM is retained, we would recommend a review be undertaken on the appropriate denominator to ensure that the indexation does not disadvantage WASC's over the Water only companies in the SIM calculation.

Ofwat has accepted that there is a difference between the cost of dual and single service customers for the purpose of calculating an average cost to serve. We believe the basis of this assumption – that there are distinct differences in the number of services provided to customers by water and sewerage companies – should also apply to the SIM methodology. The annual SIM calculation does not adjust for companies that have high proportions of dual service customers, despite the fact that the greater range of services they provide increases the likelihood of contacts from customers.

The quantitative methodology also conveys a benefit to those companies with large numbers of sewerage only properties. All charging and billing contacts, the main contributor to SIM based upon the number of unwanted contacts, will go to the water service provider, not the sewerage service provider. This results in a bias in favour of companies with large numbers of sewerage only properties. Charging and billing issues are also the most common complaint category of stage 2 escalated contacts, accounting for 61% of industry wide second stage complaints. As these escalated contacts carry a higher adverse SIM impact, there is clearly a benefit for the companies with a greater proportion of sewerage only customers.

It should be noted that we initially raised our concerns relating to the SIM scoring calculation, the impact upon companies with high proportions of dual service customers and the composition of the SIM denominator including sewerage only properties at a meeting with Ofwat in April 2010.

**Q8 Design issue 6 Non household SIM design for Wales**

N/A

**Other comments**

We would welcome targeted annual reviews of the reporting guidance and horizontal audits to ensure consistency across the industry. This will be particularly necessary in ensuring that any changes to the current methodology are interpreted and applied consistently.