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29th January 2014

Dear Sheila

Wessex Water response – Service incentive mechanism (SIM) for 2015 onwards

Thank you for the opportunity to comment on this consultation.

We agree that the SIM has been very successful and driven significant improvements in customer service across the industry. We agree it is the right time in the price setting cycle to review how it should evolve when there is an opportunity to trial a new SIM design over the 2014/15 financial year.

In summary as far as SIM design is concerned, we support:

- Retention of the current asymmetric incentive (option 1)
- Retention of the current scale of the financial incentive, namely +0.5% to -1% of revenue
- A shift in the balance more towards quantitative measures (option 4)
- Retention of the current relative incentive structure (option 1).

We also broadly support the proposed changes to the measures outlined under Option 2 although we would advocate a more radical review of the survey questionnaire, learning from the UKWIR project and a staged introduction of reporting contact from other media channels such as social media.

In terms of the application of incentives to future price controls, we believe it is important to retain incentives for frontier companies to outperform, to continue to push the frontier forward, alongside encouraging poorer performers to improve. To do that will require rewards at the top end as well as penalties at the bottom.

As a frontier company, we believe we can continue to improve our SIM score and deliver the highest levels of customer satisfaction. The SIM incentive for frontier companies is an important part of our business case for doing this, and also gives a meaningful way for staff to identify cost-effective, local improvements for customers.

However we know from our customer research into rewards and penalties that customers struggle with this concept and many do not support the use of rewards that are funded through customers' bills. To make it more acceptable to customers, an alternative might be to adapt the SIM so it becomes self-funded by the industry.

Each company would pay into a reward fund administered by Ofwat. Middle ranking companies should get their money back, poor performing companies would lose their money and good performers should receive the money that poor companies have lost. Essentially the scheme becomes one in

which poor performers are fined and the revenue generated is paid as a reward to the good performers. The net impact of the Reward Scheme will be zero.

A copy of our research findings is included as Appendix 1 and detailed answers to your questions in Appendix 2.

I hope you find this helpful.

Regards

A handwritten signature in black ink, appearing to read 'S. Lindsay', with a long horizontal flourish underneath.

Sue Lindsay
Head of customer relations

Appendix 1

Rewards and penalties

Online survey of WW 'Have Your Say' panellists

8th November 2013



Survey undertaken on Wessex Water's online panel 'Have your Say'

- 1,093 panellists responded to a short survey
- Questionnaire and show cards appear in the appendix
- Fieldwork took place between 12th -21st October



Panel samples are self-selecting: notably this sample is over represented by ABC1, older and metered customers



Male (630)	58%
Female (464)	42%

Water & Sewage (599)	55%
Water only (495)	45%

18-24 yrs (10)	1%
25-34 yrs (107)	10%
35-44 yrs (150)	14%
45-54 yrs (172)	16%
55-64 yrs (306)	28%
65-74 yrs (274)	25%
75+ (74)	7%

ABC1 (800)	73%
C2DE (220)	20%

Metered (756)	69%
Unmetered (313)	29%

Differences by demographic/customer group are highlighted in the report

To what extent do you agree or disagree that we should be rewarded for exceeding targets?

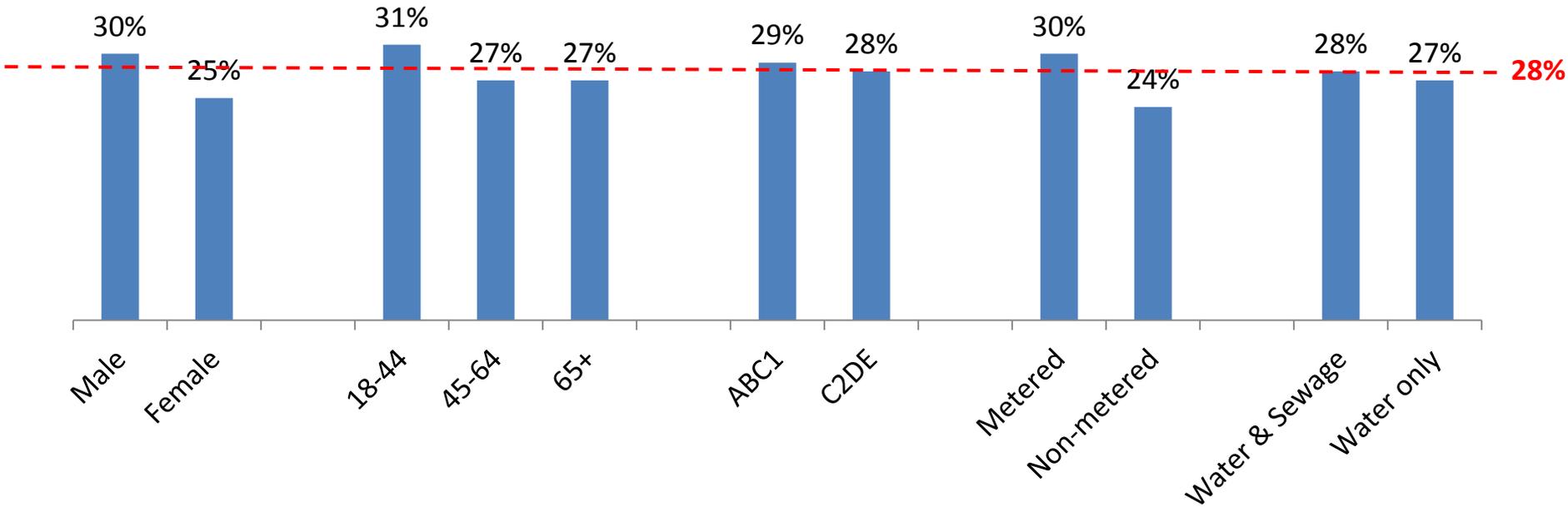
Strongly agree Agree Neither agree nor disagree Disagree Strongly disagree Don't know



Base: all (1,094)

28% of respondents agreed with the principle of Wessex Water being rewarded for meeting its targets compared to 51% who disagreed.

All agreeing/strongly agreeing with the principle of rewards



Base: all (1,094)

Respondents that agree with the principle of rewards are more likely to be **Male than female, aged 18-44 and metered vs. non metered customers.**

When asked why they agree, the majority (58%) say they feel it is *“fair to reward good service”*. Other responses include *“it’s a good incentive”* (5%) and *“if it leads to better quality, it’s a good idea”* (5%). There is a strong sense from the verbatim, however, that many who agree with the principle of rewards do not feel that customers should pay for this.

“Wessex Water should be working to achieve targets without expecting customers to pay extra for it.”

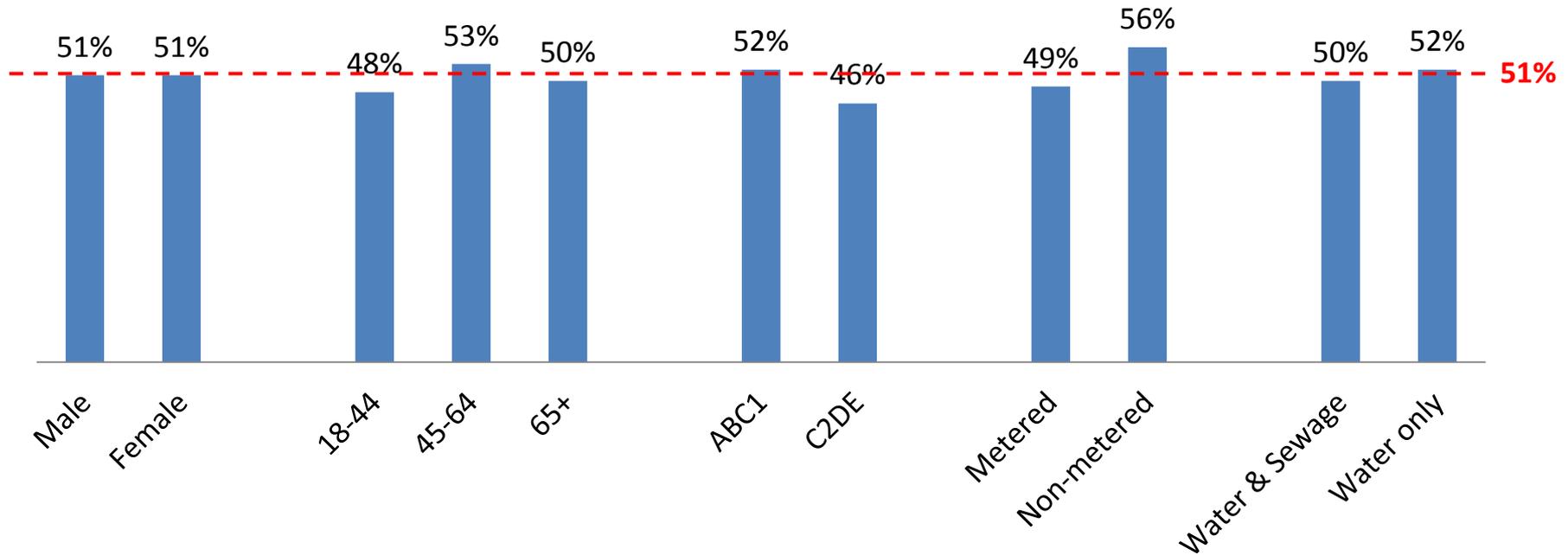
“I have always believed in incentives, provided they do not encourage unfair practices or disadvantage customers.”

“Carrot works better than stick.”

“I agree you should be rewarded for exceeding target but disagree we, the customer, should have to pay higher charges. This should be a “win win” situation.”

“In general I believe businesses and people in general should be rewarded for exceeding their expected performance. I have been for most of my working life. However, reward through higher bills is not necessarily an acceptable way of achieving this.”

All disagreeing/strongly disagreeing with the principle of rewards



Base: all (1,094)

Respondents that disagree with the principle of rewards are more likely to be **non-metered and less likely to be C2DEs.**

When asked why they disagree, the overwhelming majority (70%) said *“good service should be a basic requirement”*. Other reasons included *“The company will just keep the rewards for their own profits”* (9%), *“it depends on the targets”* (5%), *“it’s fair as long as you cut bills”* (5%) and those who questioned *“where do the rewards come from?”*

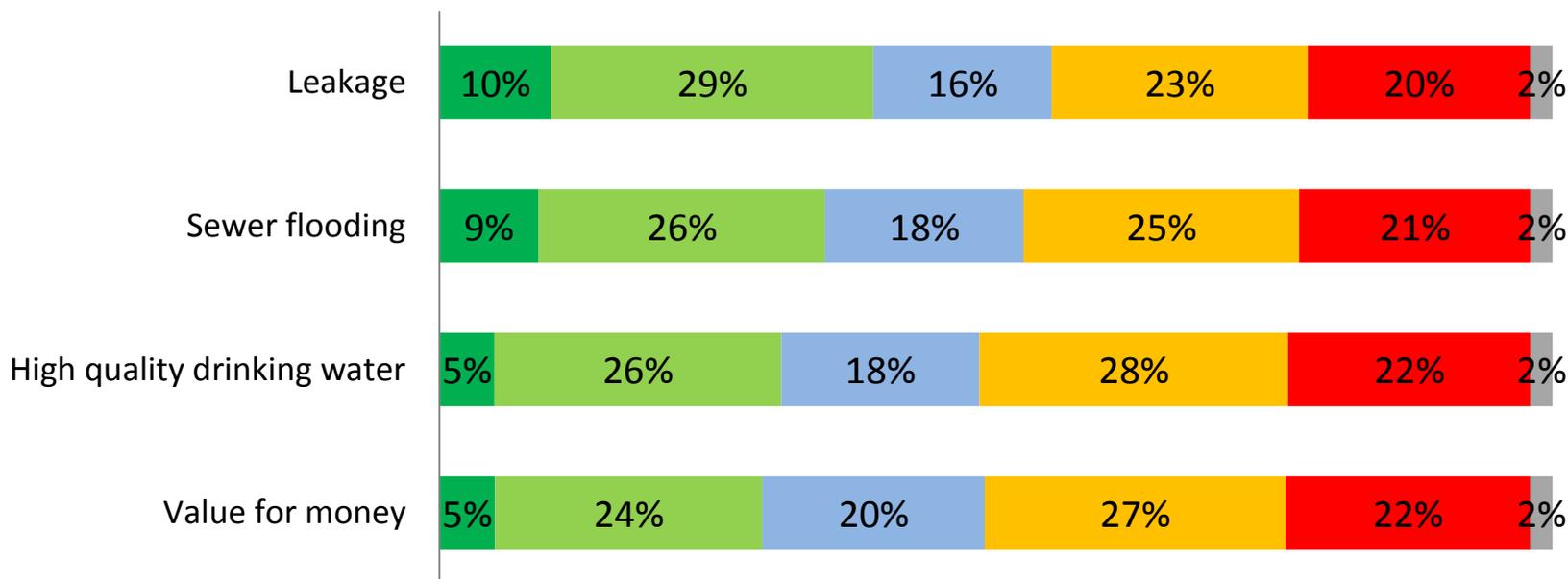
“It should be a standard part of the company’s objectives & enshrined in law to provide the services that meet the targets that OFWAT stipulates. A private company should not be incentivised to meet those targets; if it cannot meet them it should be penalised accordingly to the regulator’s framework.”

“Hugely complicated issue as it is not clear who (exactly) gets rewarded for exceeding targets - shareholders? directors? staff? Customers have an incentive to help the company fail to meet its targets in a perverse way.”

“Without knowing what the targets are, it is difficult to judge. But from the above flowchart, they would seem to be somewhat artificial. It must be nonsense to say that if you do well, I pay more. Surely if you do 'well' (by a better definition than Ofwat have come up with) then you should be making more money and there would be no need to increase bills.”

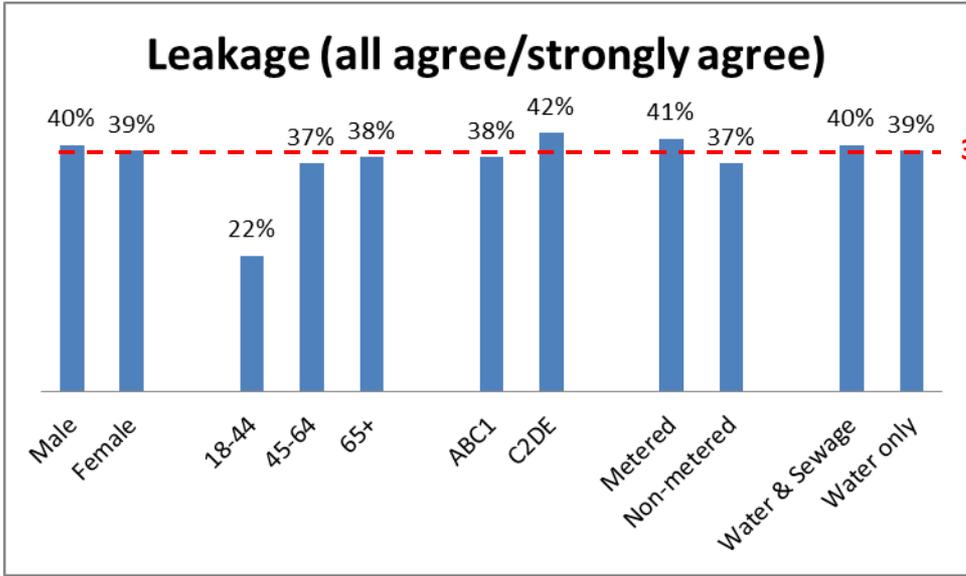
To what extent do you agree/disagree that we should be rewarded for exceeding this target?

■ Strongly agree
 ■ Agree
 ■ Neither/nor
 ■ Disagree
 ■ Strongly disagree
 ■ Don't know

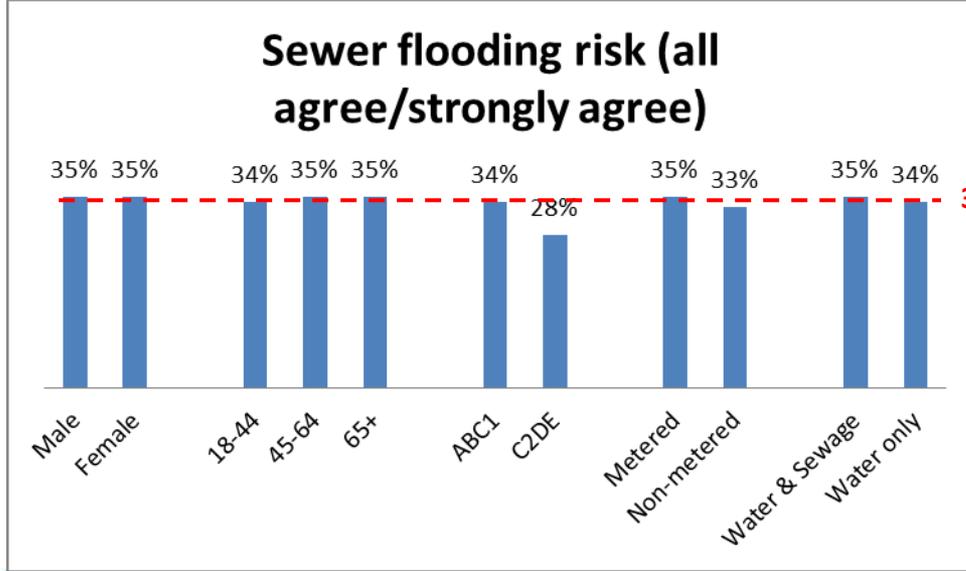


Base: all (1,094)

Respondents were more likely to support the idea of rewards in the area of leakage (39%), followed by sewer flooding (35%), value for money (29%) and high quality drinking water (31%).

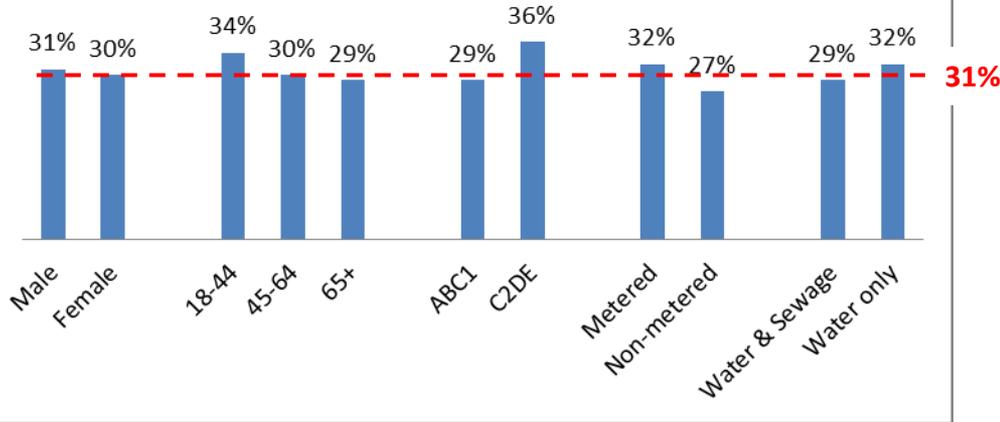


Younger customers are less likely to agree with rewards in relation to leakage



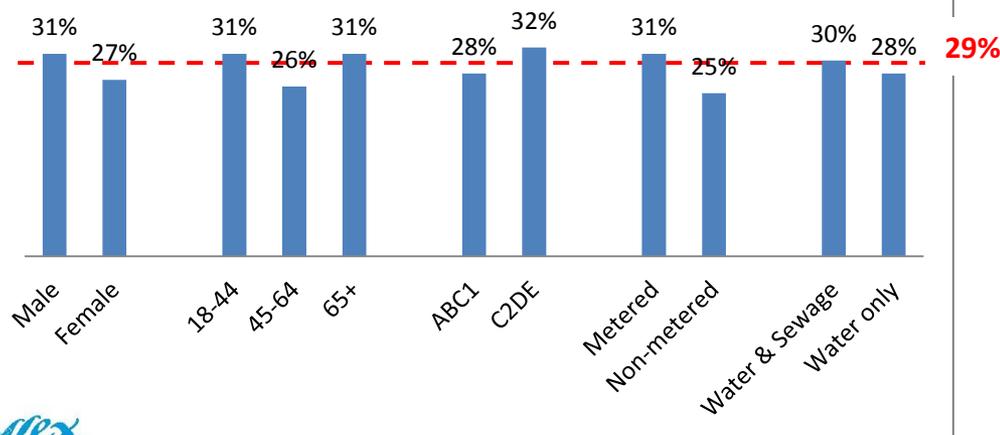
C2DE customers are slightly less likely to agree with rewards in relation to sewer flooding targets

High quality drinking water (all agree/strongly agree)



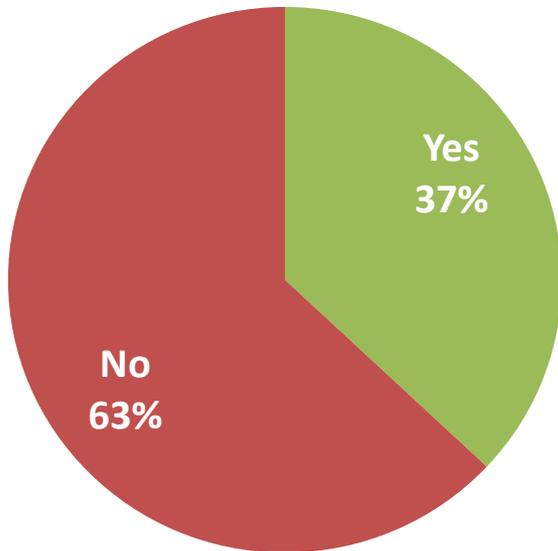
C2DE customers slightly more likely to agree with rewards in relation to drinking water quality targets

VFM (all agree/strongly agree)



No differences in levels of agreement for rewards for exceeding vfm target

Do you agree that the top performing companies should be rewarded when they deliver the best customer service to customers?(1094)



Reasons for saying 'yes'

401

Fair reward for good service	55%
It would give the companies an incentive to succeed	7%
If bills are cut then it's fair	3%
Any rewards should be spent on improving services	2%
Good service should be a basic requirement	1%
The reward should be customer loyalty	1%

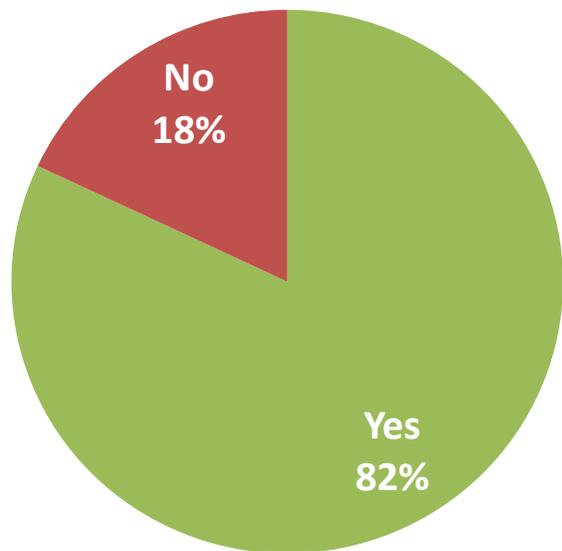
Reasons for saying 'no'

693

Good service should be a basic requirement	46%
Bill payers are entitled to the best service without having to pay more	9%
Big companies don't deserve more	7%
Your role is to produce safe/efficiently supplied water	4%
The reward should be customer loyalty	4%
The reward is profit	3%

Almost two thirds disagree with the idea of rewarding top performing companies primarily because good service is seen as a basic requirement.

Do you agree that the worst performing companies should be penalised? (1094)

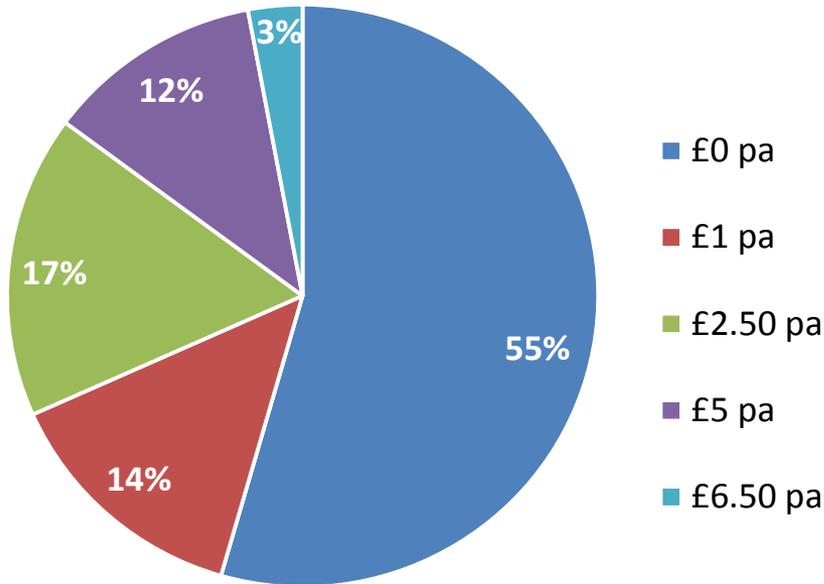


Reasons for saying 'yes'	902
It is fair to penalise companies, they must be accountable	45%
It should act as an incentive	15%
Companies should be aiming for best practice anyway	6%
Companies should be penalised by loss of customers instead	2%
It will act as an incentive	2%
Penalising companies financially may drive the cost of bills up	1%
Reduce the cost of bills of underperforming companies	1%

Reasons for saying 'no'	192
Company should be penalised by loss of customers instead	29%
Penalising companies financially may drive the cost of bills up	20%
Companies need help not penalties	8%
It is fair to penalise companies, they must be accountable	7%
Companies should be aiming for best practice anyway	7%
The regulator should take some other form of action	4%
Company management should have wage cuts instead	3%
It depends what problems are facing the company	2%

Over four-fifths agree that poor performing companies should be penalised because this is fair and will act as an incentive to improve satisfaction levels

What do you think the maximum total bill increase should be? (1094)



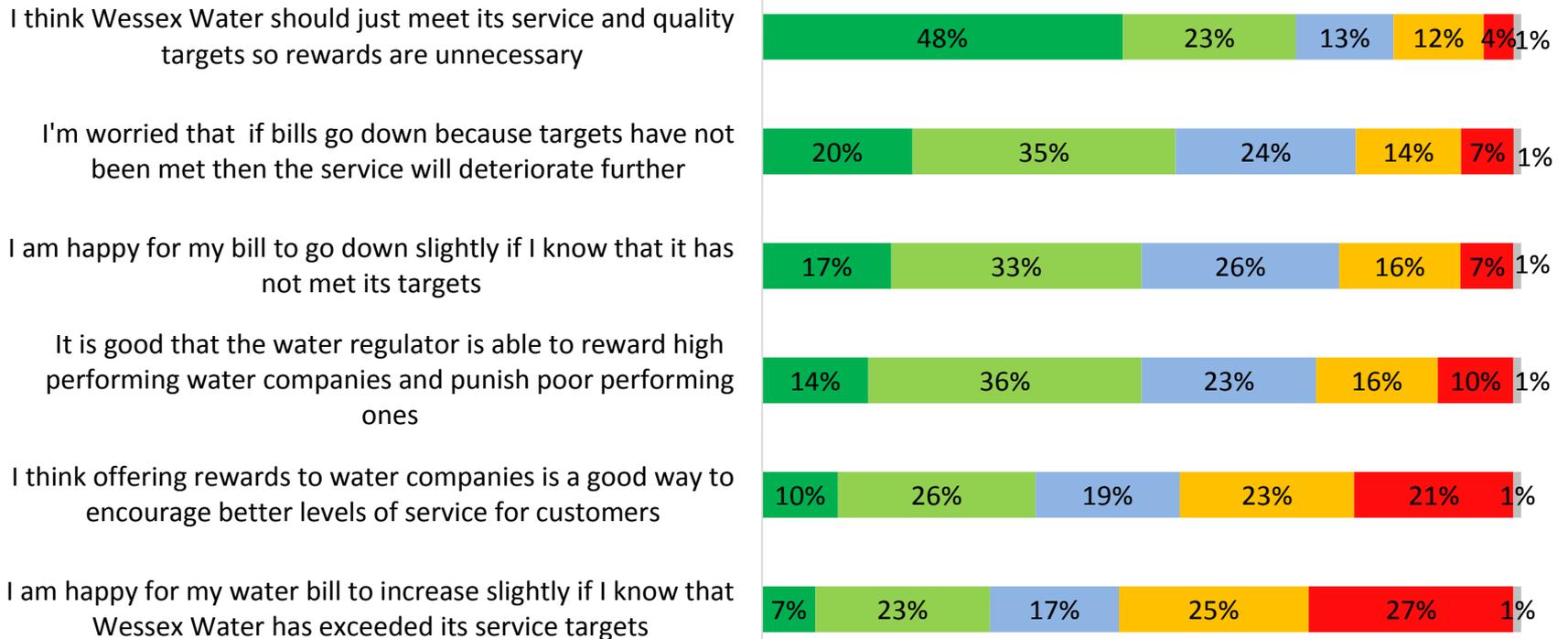
The majority of respondents (55%) were not accepting of any bill increase. 31% of respondents would be prepared to pay up to £2.50 per annum for rewards, with 15% saying they would be willing to pay £5 or more per year.

“I find it a tough pill to swallow if you succeed meeting your targets it is us as a consumer face higher bills!”

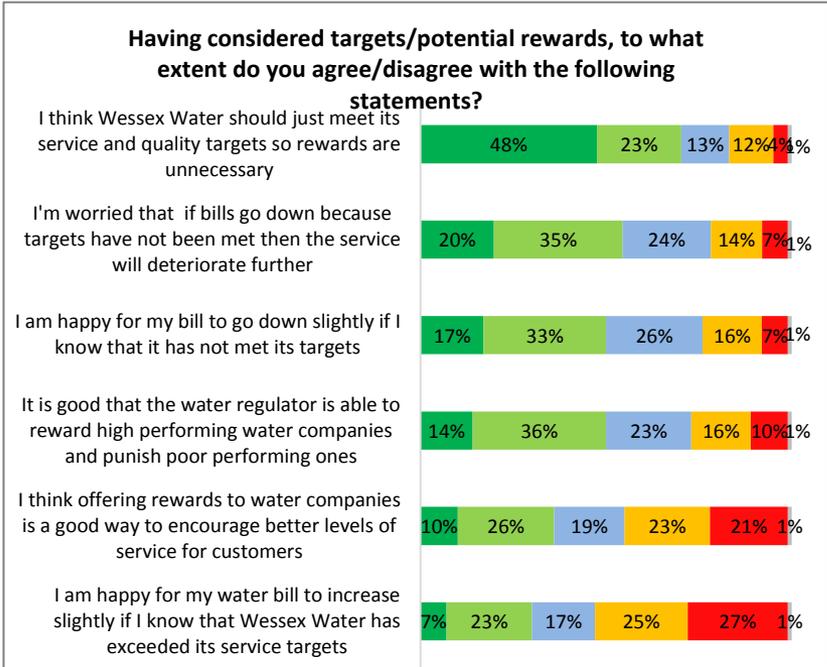
“I'm sorry I think rewards paid at customers expense are a joke.”

Having considered targets/potential rewards, to what extent do you agree/disagree with the following statements?

■ Strongly agree
 ■ Agree
 ■ Neither agree nor disagree
 ■ Disagree
 ■ Strongly disagree
 ■ Don't know



Base: all (1,094)



The attitude statements reinforce the conclusion that most customers do not agree with rewards:

- Very high agreement (71%) that Wessex Water should meet its service and quality targets without the need for rewards
- Lowest agreement (30%) with the idea of small bill increases if Wessex Water exceeds its targets (the over 75s are less averse to this than other age groups)
- Unmetered customers are less happy than metered for bills to increase slightly if service targets are exceeded
- C2DE customers are less likely to be worried about service deterioration if bills go down and happier for the bills to go down if Wessex Water does not meet its targets

Opinion of the rewards in principle:

- The majority of customers disagree with the principle of rewards (51% disagree, 28% agree).
- This is because good service is an expectation and a basic requirement.
- There are strong indications that even those who agree in principle that companies should be rewarded for exceeding targets question whether this should be paid for via customer bills.



Opinion of rewards for different elements of service

- Agreement with rewards rises slightly when put into the context of specific service aspects. For instance, while 28% agree with the principle, 39% agree with rewards in relation to leakage targets.
- Agreement is highest when in relation to meeting leakage targets, with 35% agreeing to rewards in relation to sewer flooding. Value for money and high quality drinking water are seen as slightly less appropriate areas for applying rewards
- In relation to customer satisfaction, there is much stronger agreement that Ofwat should penalise poor performing companies (82% agree) than rewarding the top performers (37% agree).



How do customers reflect on the rewards?

- On reflection, 71% of customers think that Wessex Water should simply meet its service targets rendering rewards unnecessary.
- Over half worry that if companies have to pay financial penalties then service levels will deteriorate further (felt more strongly by ABC1 and metered customers).
- Half would be happy to see their bill go down if targets are not met, felt more strongly by C2DEs

Appendix

Survey materials

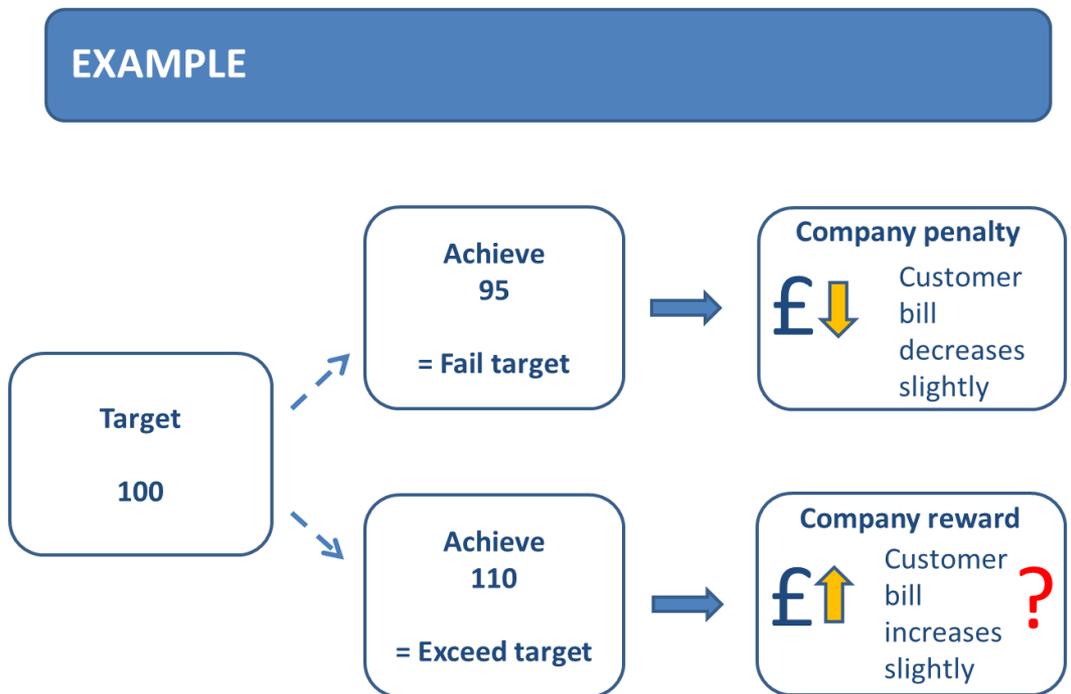
QUESTIONNAIRE: Online panel – rewards and penalties

As part of our 5 year Business Plan we will agree a set of targets with our regulator, Ofwat. These targets are to improve the things that our customers have told us are important.

If we fail to meet any of the targets we will suffer a financial penalty, and your bill will be reduced slightly as a result.

This research is about what happens if we beat our targets. It has been suggested that we should receive a financial reward. The reward would be fixed in advance by the industry regulator - and we would only benefit if we could beat the target at a cost lower than the reward on offer.

If we were rewarded, your bill would increase slightly as a result. These two scenarios are shown below



Q1a. We want to understand your views on rewards. In principle, to what extent do you agree or disagree that we should be rewarded for exceeding the targets?

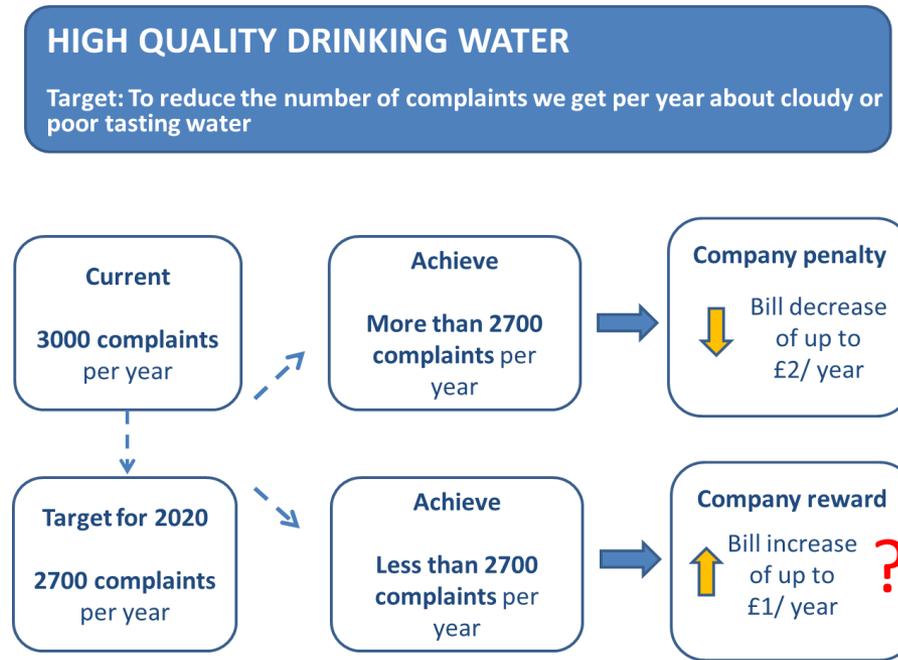
Strongly disagree... Strongly agree.

Q1b. Please give your reasons for your answer

There are a range of targets that we could be rewarded on, and you may agree with some of them, but not others. The examples below show the areas of the plan where financial rewards could be given, and also show the expected impact of these rewards on your annual bill. We would like to get your view on each of these areas.

High quality drinking water

Q2 Although our water is completely safe to drink, we sometimes get complaints about the appearance or taste. This is the target for reducing drinking water quality complaints.

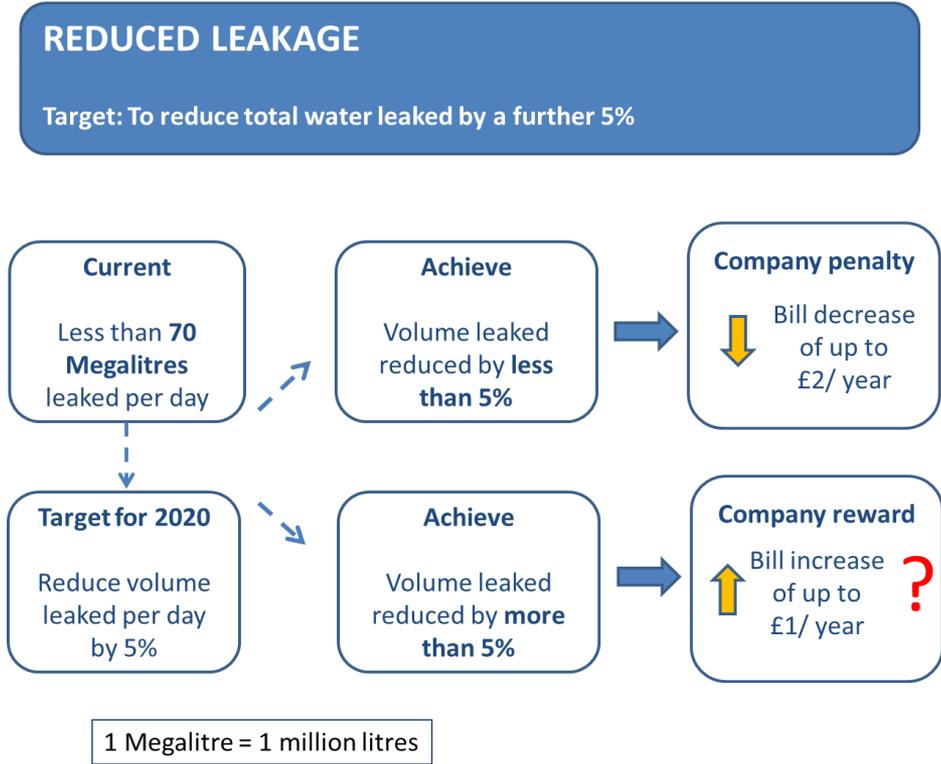


We will be penalised for failing to meet the target. To what extent do you agree or disagree that we should be rewarded for exceeding this target?

Strongly disagree ... Strongly agree

Leakage

Q3 Customers tell us that reducing the amount of water that leaks is important. Reducing leaks further costs additional money and will add to the amount that customers pay in their bills. This is the target for reducing leakage.

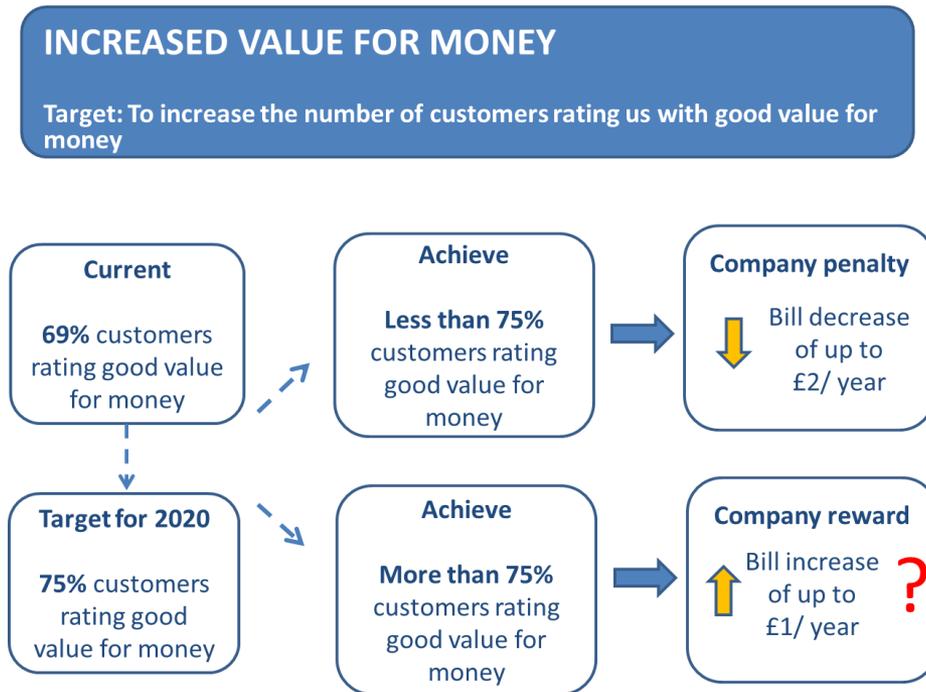


We will be penalised for failing to meet the target. To what extent do you agree or disagree that we should be rewarded for exceeding this target?

Strongly disagree ... Strongly agree

Value for money

Q4 Customers compare us to other service providers and their expectations and opinions on value for money are set by the service they receive in these other sectors. This is the target for improving our rating on value for money.



We will be penalised for failing to meet the target. To what extent do you agree or disagree that we should be rewarded for exceeding this target?

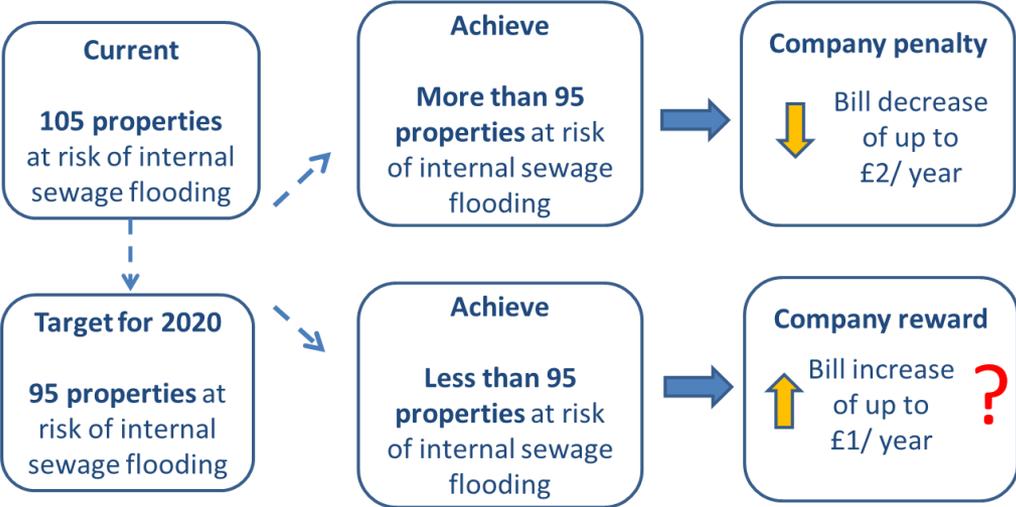
Strongly disagree ... Strongly agree

Sewer flooding risk

Q5 Only very few properties each year get flooded by sewage. As population increases and the climate changes, more properties become at risk of flooding, which requires more investment to solve. This is the target for reducing the number of properties at risk of internal sewage flooding.

REDUCE SEWER FLOODING RISK

Target: To keep reducing the number of properties at risk of sewage flooding despite a changing climate and increasing population

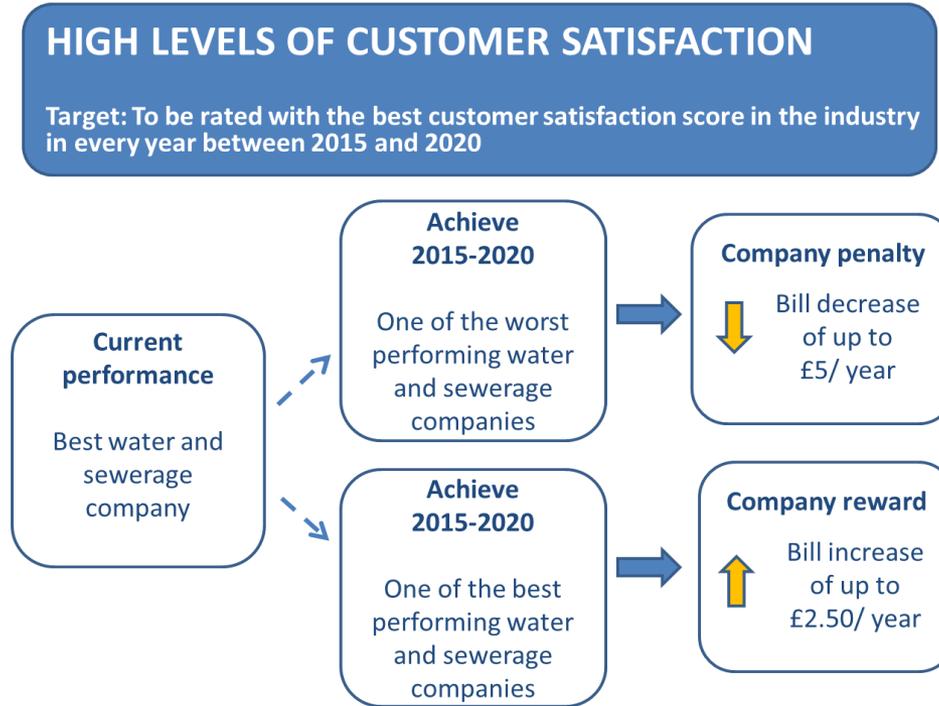


We will be penalised for failing to meet the target. To what extent do you agree or disagree that we should be rewarded for exceeding this target?

Strongly disagree ... Strongly agree

Customer satisfaction

Q6 Our regulator, Ofwat, has a way of measuring water companies against each other for customer satisfaction, where it rewards the best companies and penalises the worst. The potential bill impacts of this are shown below. We would like your views on both the rewards and penalties of this target.



Question 6a. Do you agree that the top performing companies should be rewarded when they deliver the best customer service to customers?

Yes/ No

Question 6b

Why have you answered this way? Please use the box below if you'd like to explain.

Question 6c. Do you agree that the worst performing companies should be penalised?

Yes/ No

Question 6d

Why have you answered this way? Please use the box below if you'd like to explain.

Question 7. Thank you for answering the questions so far. If you agree with the principle of rewards you may think that there should be a cap on the total amount we can be rewarded, and therefore the total impact on customer bills. Of these options, what do you think the maximum total bill increase should be?

Maximum bill increase of

£0/ year

£1/ year

£2.50/ year

£5/ year

£6.50/ year

Question 8. Having considered the targets and the potential rewards, to what extent do you agree or disagree with the following statements?

[strongly agree, agree, neither agree not disagree, disagree, strongly disagree]

- *I am happy for my water bill to increase slightly if I know that Wessex Water has exceeded its service targets*
- *I think Wessex Water should just meet its service and quality targets so rewards are unnecessary*
- *I am happy for my bill to go down slightly if I know that it has not met its targets*
- *I think offering rewards to water companies is a good way to encourage better levels of service for customers*
- *It is good that the water regulator is able to reward high performing water companies and punish poor performing ones*
- *I'm worried that if bills go down because targets have not been met then the service will deteriorate further*

Question 9. Finally, if you have any further comments about rewards and penalties, please use the box below to provide your feedback.



[E: enquiries@bluemarbleresearch.co.uk](mailto:enquiries@bluemarbleresearch.co.uk)

[W: www.bluemarbleresearch.co.uk](http://www.bluemarbleresearch.co.uk)

T: 01761 239329

Appendix 2

Question 1

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 costs and benefits of doing so.**

We agree that the SIM has been very successful to date and driven improvements in customer service across the industry. It is important to retain incentives for frontier companies to outperform, to continue to push the frontier forward, alongside encouraging poorer performers to improve. To do that will require rewards at the top end as well as penalties at the bottom. Reputation alone isn't enough to drive better service or behaviour change.

The SIM incentive provides a tangible way of enabling staff to advocate improvements in customer service. For example, based on the current SIM incentives, we have calculated the average incentive reward for each element of the incentive, such as one less customer complaint, one less escalated complaint, one less unwanted contact, etc. This information is used by the business to identify examples of where we can deliver improved customer service at a cost commensurate with the SIM incentive and thus build a business case for it.

This is one of the reasons why the SIM mechanism has been so effective at further improving the service that we deliver to customers – it has empowered staff to find cost-effective local improvements that have real meaning for customers.

Unless we continue to reward the best performers you will see companies drift into mediocre performance as it will be difficult to justify a new innovation to improve service particularly where there might be additional cost associated with it. Companies will remain static in their performance as long as they remain outside the penalty zone.

If you take Wessex Water as an example, we have been the leading water and sewerage company on the SIM since its introduction and the mechanism has incentivised us, as a frontier company, to continue to improve not to stand still. Our score has been 83 (2010/11), 85 (2011/12) and 85 (2012/13) although the underlying level of improvement is somewhat masked as it coincides with the adoption of private sewers, doubling our sewer network, and the associated increase in customer contact.

We anticipate a score of 86 for 2013/14 and are targeting a further improvement to 87 in 2014/15. The improvement this year can be achieved at modest cost through initiatives we have in place focussing primarily on moving customers from fairly to very satisfied and reducing unwanted contact (the great majority of our quantitative score). We would expect further improvements over AMP6 and these will be primarily delivered through better customer relationship management systems. One part of the business case for this investment is our assessment of the SIM incentive that it would deliver.

However we believe achieving a score of 90 or above would entail very significant investment and cost and/or a substantial reduction in debt recovery effectiveness (around a third of our dissatisfied customers are those that we are chasing for payment – it is difficult to engage with a customer who can pay but refuses to in a way that also leaves them rating the interaction as very satisfied).

If you look at customers' views, our research consistently shows that they expect high levels of service from their water company. For example, we have evidence of customers' positive reaction to the customer service outcome when testing our 25-year vision and our business plan last year. It is also generally accepted that customers are willing to pay more for better service (this being one differentiator that allows John Lewis, say, to charge higher prices than Ikea).

As part of the engagement for our business plan, we carried out some customer research with our online customer panel on financial rewards for exceeding agreed service standards. We first sought the views of customers on the general principle of rewards and then in relation to a number of measures including customer service. Customers were told that companies would be penalised for failing to meet the agreed service standards.

This research showed that customers struggle with the overall concept of rewards – only 28% agree with the overall principle - and even those who agree question whether they should be paid for via customer bills. When asked about rewarding companies on a specific measure of customer service/satisfaction, only one third agree with the idea of rewarding top performing companies primarily because good customer service is seen as a basic requirement. Conversely 83% agree that the poorest performing companies should be penalised because this is fair and will act as an incentive to improve satisfaction levels.

If you take this distribution of customer views into account, it points to a ratio of 1:3 rewards to penalties, which would imply a financial incentive range of +0.5% to -1.5%.

To make rewards more acceptable to customers, one alternative might be to adapt the SIM so it becomes self-funded by the industry. Our suggestion is for companies each to pay into a reward fund that is administered by Ofwat. Middle ranking companies should get their money back, poor performing companies would lose their money and good performers should receive the money that poor companies have lost. Essentially the scheme becomes one in which poor performers are fined and the revenue generated is paid as a reward to the good performers. The net impact of the Reward Scheme will be zero.

A copy of the research findings can be found in Appendix 1.

Question 2

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;**
- **how these incentives (and financial risks and rewards) might be passed through from retail to wholesale businesses; and**
- **the proposition that we should leave companies to develop internal ‘contracting’ arrangements as they see fit, rather than be subject to any prescribed arrangements.**

We agree that the SIM should continue to be used to incentivise service improvements throughout the value chain i.e. option 2. When customers judge service they do not separate the parts of the value chain, they judge the service at a company level.

We also believe it should be left for companies to choose how to pass the service incentive on from the retail part of their business to the wholesale part.

If SIM was operating in the non-household sector then Ofwat would need to consider and check that the wholesale contractual arrangements with retail non-household were fair compared to the treatment of other non-household retailers. As SIM is limited to household only moving forward, it simply becomes a question of internal incentivising and should remain the responsibility of companies.

Question 3

Design issue 1 – symmetric or asymmetric incentive?

- 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).

As set out above under question 1, we agree that rewards should remain in place for frontier companies. If the SIM was to move more towards symmetrical rewards and penalties then it may encourage greater innovation. However customers are more likely to support a scheme that is more asymmetrical where the penalties are greater than the rewards. On balance we therefore prefer to retain the current asymmetric structure i.e. option 1.

Question 4

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?

Under an asymmetric incentive we agree that the current magnitude of financial exposure should stay as +0.5% to -1% of revenue.

The current range of 1.5% has driven the right behaviour across the companies. Although we don't have any direct research on the range of the financial incentive, for the reasons set out under Question 1 above, the penalty could be extended to -1.5%.

However if the outcome of this consultation is to move to a more symmetric incentive, then we would favour +/- 1% as this would give additional incentives for frontier performers to push the frontier forward.

Question 5

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); or
- option 5 – remove the qualitative measures entirely.

The greatest opportunities for improvement on the SIM, both for Wessex Water and the industry as a whole, are on the quantitative component. Figure 7 in the consultation shows the greatest difference across companies is in their performance against the quantitative criteria. Little improvement has been seen in the qualitative measures of customer satisfaction and the range of scores is much narrower.

We believe that both the qualitative and the quantitative components are key parts of the SIM – the quantitative gives us a view across the whole customer base of company performance (i.e. it is equivalent to a poll of all customers asking which ones had to contact the company for unwanted reasons), while the qualitative looks at just that fraction of customers who have contacted the

company. So the quantitative measures overall performance to all customers and then the qualitative adds a layer on top of this to measure how good the company is at individual interactions. The SIM should continue to measure both and, in our view, place greater emphasis on the quantitative score where there is both the most opportunity to improve even for frontier companies, and the most significant difference between frontier companies and laggards. This would be option 4.

Question 6

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.

We believe that the SIM should evolve as we move to a household only measure and while there is still concern around data provision and comparability of reporting across companies.

On balance we prefer Option 2 as it strikes a better balance between improvements that need to be made to the SIM and workability of the measures, although we have some concerns about the quantitative element of this option.

In Option 2 we particularly support the shortening of the survey to focus on the key drivers of satisfaction and think this would improve the customers' experience when interviewed. The UKWIR project has tested a much shorter and simpler survey to great effect so we would encourage Ofwat to utilise this learning when designing the new satisfaction survey and start afresh rather than simply removing a few questions from the existing one.

We agree that the survey sample should remain as resolved contacts as the SIM is designed to measure the end to end customer experience. There are concerns around sample provision, which we have raised separately with Ofwat, and the definition of resolved contacts across companies but we would prefer to resolve these reporting differences than move to a survey of all contacts

We are also very much in favour of removing the notice period for surveying. We appreciate this may be more problematic for the smaller water only companies in terms of data provision but this change has been mooted for a number of years and in our opinion customer service standards should be maintained 24/7, 365 days a year.

It is not clear whether Ofwat intend to survey contacts from all media types for satisfaction. If that is the case then alternative survey techniques would need to be considered such as social media surveys.

We can see what Ofwat is trying to achieve with the changes proposed to the quantitative element in terms of adapting the measure to suit more innovative methods of communication with customers such as social media and live chat. Unwanted telephone contacts would be replaced by unwanted contacts from all channels that aren't a written complaint.

Social media contact is growing but it is still a very small proportion of overall contact from customers. It is not normally used for more complex billing or operational queries as customers generally do not provide their contact details when communicating via social media. It is more a tool for simple generic queries or comments, for example on road works as the customer drives to work. The customer may begin their interaction on Twitter and then revert to a more traditional method of communication such as email or phone to provide their details for us to investigate and provide a full response. Also, it won't always be possible to distinguish a household customer from a non-household customer.

Ofwat do acknowledge these issues and one proposal would be to only count social media contacts where the company has entered into a discussion with the customer and the contact has been recorded against the customer's account. This approach has merit but it would require some very clear definitions and in many cases, changes to company systems and processes which take time to

get right. We would not support a move to a scenario where social media contacts were only counted if the company advertised social media channels or included them in their code of practice as that would drive the wrong behaviour.

It has taken a number of years for the industry to become fully compliant and more comfortable with the reporting for the current quantitative measures, particularly unwanted contact. With the challenges identified above, we suggest Ofwat introduce Option 2 in stages.

From April 2015 (following pilot testing in 2014/15) the changes to the qualitative measures and removal of the telephone measures could be introduced and companies asked to report on social media separately. Inclusion of social media could then be introduced from April 2016 once there is more understanding of companies' approaches and systems and detailed reporting guidelines have been developed and tested.

Question 7

Design issue 5 – use of absolute or relative performance. We invite views on:

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

We favour retention of the current relative approach (Option 1) as this has worked well both for SIM and the OPA before it and does incentivise companies to strive for top spot.

An absolute performance approach is problematic because companies will continue to get better over time so more and more companies would get rewards on the SIM if the bar remains static. It would need to be regularly raised.

Although we favour relative rewards, they shouldn't discriminate small variations in performance. The current proposal of using standard deviations works very well as it doesn't introduce those artificial differences in service.

There is no reference in the consultation to the comparison of water and sewerage companies with water only companies. Although we appreciate this was debated when the SIM was introduced we think it should be revisited. We believe performance should be assessed separately in two league tables to ensure a like for like comparison. Water and sewerage companies face very different challenges and offer twice as many services as water only companies so, all else equal, would be expected to receive more unwanted contacts.

Question 8

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.**

Although the non-household market can be very different in nature compared to the domestic market, particularly for larger customers and those businesses spread across multiple sites, it remains the case that the substantial majority of non-household customers are small businesses, such as corner shops, that have similar levels of interaction and requirements as domestic customers. Since the SIM survey is randomly chosen, the majority of participants would be at this smaller end of the spectrum and, on that basis, we consider Option 1 is the most appropriate.