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

In 2010, we introduced the service incentive mechanism (SIM) as the national incentive for customer service.

This document consults on changes we need to make to the detail of its application during 2015-20. We include information on why we need to change elements of the design and set out the options for doing so.

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Consultation questions

Throughout this consultation, we raise a number of specific questions, which we have summarised here. As well as responses to these specific questions, we welcome views from stakeholders on any of the issues we raise in this document.

Overall design of the incentive

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.

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

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;
   • 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.

Detailed design questions

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).
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?

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

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.

Q7 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).

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.
Responding to this consultation

We welcome your responses to this consultation by **31 January 2014**.

We will use responses to this consultation to inform our decisions on the design of the service incentive mechanism (SIM), which we will publish in March 2014.

You can email your responses to **price.review@ofwat.gsi.gov.uk** or post them to:

Price Review Programme Team  
Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham  
B5 4UA.

We plan to hold industry workshops in England and in Wales during the consultation period. We will confirm plans for these separately but they are likely to be early in the new year.

We will publish responses to this consultation on our website at **www.ofwat.gov.uk**, unless you indicate that you would like your response to remain unpublished. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the Data Protection Act 1998 and the Environmental Information Regulations 2004.

If you would like the information that you provide to be treated as confidential, please be aware that, under the FoIA, there is a statutory ‘Code of Practice’ which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.
1. Introduction

We introduced the service incentive mechanism (SIM) in 2010 to provide companies in the water sector in England and Wales with a common outputs-based measure of customer service quality, against which the companies have been financially incentivised. It comprises:

- a **quantitative** component consisting of six customer handling metrics – number of calls abandoned or engaged, unwanted phone contacts, written complaints, and escalated complaints within the company and to the Consumer Council for Water (CCWater); and
- a **qualitative** component based on the results of customer satisfaction surveys with a recent resolved contact (by any media for any reason).

Each component is scored out of 50, and as part of setting price controls, companies are rewarded or penalised according to whether they are above or below the average score for the sector. The maximum reward for highly performing companies is capped at 0.5% of revenue of the appointed company’s integrated business; the maximum penalty is capped at 1% of revenue.

The SIM is widely regarded as having worked successfully to date to drive up the quality of customer service. Analysts use it frequently as a key performance measure. In ‘Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans’ (the ‘methodology statement’) we confirmed that we would use the SIM as a standard minimum national incentive to drive quality of customer service for 2015-20.

We also confirmed that its likely scale and scope would be similar to the current SIM, but that it would apply only to the household retail price control in England and both retail controls in Wales (because of the Welsh Government’s policy decision not to introduce choice for non-household customers). And we described how it was appropriate to use SIM as a national minimum standard incentive – that is, a consistent incentive for all customers who cannot choose or change supplier. This does not prevent companies putting forward their own outcomes (and incentives) for customer issues beyond those that the SIM covers.
This consultation covers:

- the design of the SIM for 2015-20; and
- the application of the incentives to the price controls set for 2020 onwards (based on the performance during 2015-20).

We expect to use the year 2014-15 to test the conclusions this consultation reaches.
2. Why do we need to change the design of elements of the SIM?

2.1 Change to targeted price controls

Our price control methodology is changing. From 2015 onwards, there will be targeted controls as shown in figure 1 below. This will include separate targeted price controls around the customer-facing ‘retail’ services that companies provide.

We expect this change to focus the attention of companies’ management on the customer-facing parts of their businesses in England and Wales. The aim is to continue to drive efficiency improvements and bill savings for customers, and also to enable effective choice for non-household customers in England in advance of forthcoming legislation from the UK Government.

The new approach also introduces outcomes-based commitments. The basis of this approach is for companies to put forward plans that contain outcomes through consultation that are specific to their customers’ needs – and that customers also support.

Figure 1 Extract from the methodology statement

In the methodology statement we explained that we consider it is appropriate to use SIM as a consistent national minimum customer service incentive. This does not prevent companies from putting forward their own outcomes and incentives that go beyond our requirements.
We want to continue to incentivise the best companies to maintain their service levels. We also want other companies to improve the level of service that they offer to customers, particularly when those customers cannot choose their supplier. This means that while we want to keep the SIM because it is effective, we need it to evolve to focus mainly on household customers in England – as non-household customers will have choice – and all customers in Wales. It is also a sensible opportunity to review wider issues with the SIM to ensure it continues to be effective.

This new approach to how price controls are set means that the current SIM will need to be modified.

The SIM needs to evolve to:

- focus on the customers that have no choice (service incentives will no longer be relevant for non-household customers in England who will be able to choose their supplier);
- apply the incentive rewards and penalties to the retail price control only; and
- continue to measure and incentivise customer service for non-households in Wales (who, based on Welsh Government policy, will not be eligible to choose their supplier).

### 2.2 UKWIR research benchmarking sector methods for measuring customer service

In 2012, UKWIR research benchmarked the SIM methodology against other methods of measuring customer service used in both regulated and non-regulated service sectors. The study concluded that other sectors also find a mixture of qualitative and quantitative information essential in understanding and measuring customer service (like the two components of the existing SIM).

But the SIM survey is somewhat different to those found in other sectors because it focuses customers on a specific transaction (or series of transactions). Other sectors’ surveys tend to be more generic, surveying non-contactees as well as contactees (which is more like the annual tracking research that CCWater carries out).

We note that UKWIR is intending to take forward a follow-on piece of work that will look at the practicalities of applying to the water sector some of the methods that other sectors use.

Chapter 4 seeks views on some of the points raised by this research.
2.3 Arrangements in Wales

The independent Commission on Devolution in Wales (the ‘Silk Commission’) is currently considering the case for amending the existing financial and constitutional arrangements in Wales. This could include changes to the current boundary for water policy, which could affect the design of the future SIM for those companies whose areas of appointment currently straddle the border between Wales and England.

While the UK Government is currently taking forward legislation that seeks to allow every non-household customer in England to choose their supplier, the Welsh Government has adopted a different policy position and non-household customers in Wales will continue to receive their service from a single monopoly supplier.

2.4 Generating comparable information

As the SIM incentives rely on comparing company performance, we are mindful that any change to the methodology generates SIM scores that can be compared. But ultimately it is for each company to satisfy itself (and its Board) that its systems and processes generate information in the correct manner.

2.5 Assumptions

This consultation is based on the following assumptions.

- Customer service for all household customers will be measured separately from non-household customers whether in England or Wales, reflecting the changes to the price control methodology.
- Incentive rewards/penalties will compare all companies on the same basis – that is, the measurement of and incentive for household customer service will be the same in England and Wales.
- All customers will continue to be protected by the mandatory standards of service set out in the GSS Regulations. We consider this will be sufficient for non-household customers in England, who will be able to change supplier to suit their specific needs.
- Customer service performance for non-household customers in Wales who do not have a choice of supplier (that is, those who use up to 50 million litres of water a year) will be augmented by a SIM incentive. This will be measured separately from household customers.
3. Overall objectives and scope of the SIM

3.1 SIM performance to date

The purpose of the SIM is to incentivise good service for customers where they have no choice of supplier. As a comparative incentive mechanism, SIM works to encourage the best companies to maintain good service and the poorer performers to improve. The overall effect has been to improve industry customer service levels. Our proposals for a number of detailed design issues (outlined in chapter 4) will need to be informed by an understanding of where we currently see the main issues over customer service delivery, and hence where we wish the SIM to have greatest effect over the next period.

The current SIM has worked well. At a sector level, customer complaints have reduced and customer satisfaction has increased (see figures 2 and 3). This suggests that the incentive is working. But as we update to focus on household customers, there is an opportunity to review the balance of all the measures to ensure the SIM remains fit for purpose.

Figure 2 Reduced customer complaints and improved handling (as evidenced by fewer complaints investigated by CCWater)
Figure 3  Improved customer satisfaction with the way contacts are handled as measured by the SIM qualitative survey

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

We need to decide whether we want the SIM to incentivise:

- further improvements in the service that the best performing companies in the sector offer (the ‘frontier’);
- improvements by the less well performing companies in the sector, while maintaining ‘frontier’ performance at current levels; or
- some combination of both.

Figure 4 below shows the SIM scores for each company in 2012-13. It shows several companies grouped with scores in the mid- to high-80s, but with a tail of companies performing significantly less well.
Figure 4  Company SIM performance in 2012-13

Figure 5 below shows the profile of SIM scores over the past three years. It shows a year-on-year improvement in SIM scores associated with all rankings, with some improvement in scores at the top end of the range but greatest improvement at the lower end – and hence some flattening of the overall profile.
The case for using the SIM, in a form similar to the current incentive, to continue to drive improvements in less well performing companies appears to be strong. Typically, comparative incentives like the SIM and its predecessor, the overall performance assessment (OPA), have generally proved to be good at promoting ‘catch-up’ efficiency from poor performers, but less good at promoting innovation and improvement among high performers at the frontier.

We would like your views and evidence on the pros and cons of further frontier improvements – where these incentives have generally been less effective at driving continuous improvement. We want to understand:

- the scope for further service improvements – where companies, customers and other stakeholders consider there to be scope to improve frontier performance, in particular with reference to performance and innovation in other sectors; and
- the costs of further service improvements – what the additional cost would be to push frontier performance further in these areas.

We should only incentivise further frontier improvements if there is compelling evidence that the benefits of doing so exceed the additional costs, but we note that many innovative service improvements also generate reduced costs – so improving frontier service does not necessarily imply increased bills for customers. Yet, some companies are already at a point where they report that the number of written compliments they receive exceeds the number of written complaints.
There is also some evidence from CCWater and the SIM that water customers are, on the whole, fairly satisfied with the level of service that the companies provide. For example:

- the CCWater tracking survey rated customer satisfaction with wastewater services between 4 and 4.28 (on a scale of 1-5) in 2012-13;
- customers answering SIM survey additional questions rated satisfaction with their water and wastewater company at an average of 7.8 to 8.9 (out of 10);
- across the sector, unwanted contacts in 2012-13 were less than half those in 2009-10; and
- average customer satisfaction across the sector has risen from 4.2 in 2009-10 to 4.4 in 2012-13 (on a scale of 1–5).

However, as technology advances, customer expectations of acceptable methods of business also advance. For example, Barclays Bank has found that its customers love using on-line banking – but not at home – within the branch using in-branch tablets with customer service staff on hand. Customers like the progressive nature of doing business like this and Barclays found it quicker to meet customers’ needs.

Another example of innovation that has helped deliver services customers like and use while improving efficiency, is the kiosks that Hertz Car Rental has introduced. The kiosks provide real-time, face-to-face contact with an off-site agent alongside an interactive screen. They are used to fill customer service gaps at busy locations, replacing self-service terminals that were not liked or used effectively. Hertz has also found it can use the same technology to expand its market into occasional use areas such as car hire by garages.

There are several examples of innovative approaches to dealing with customers that the water companies have used, including:

- proactive customer contact when issues arise (that is, before the customer makes contact);
- call centre staff being empowered to make decisions and ‘go that extra mile’, and not just sticking to a script and wrap-up time; and
- growing use of phone apps and other social media to enable ease of reporting – for example, encouraging customers to tweet a photograph of a leak, and text reminders about bill payments.

Companies are also employing a vast array of tools to gauge customers’ views post-contact, from contact cards, text or ring backs to automated surveys.
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.

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

Many of the current qualitative measures of customer service relate to customer satisfaction with their overall water and sewerage services – for example, when customers make contact about supply interruptions or sewer flooding, which can be affected by the quality of service provided as much by the wholesale elements of the business as well as the retail elements. We have considered the following options.

- **Option 1** – to narrow the scope of the service measures to focus on only those elements that affect retail activities and outcomes (and reduce the financial value of the incentive accordingly).
- **Option 2** – to use service measures within the SIM which (as now) pick up issues that reflect both retail and the wholesale activities and outcomes.

Our preference is for option 2. The SIM has, to date, incentivised improvements in service quality throughout the value chain and this seems appropriate given that many of the complaints that customers raise relate to wholesale service delivery. The customers most commonly interviewed in the qualitative survey have contacted the company over blocked sewers or drains. Water supply interruptions, leaks (on the customer’s property and in the road) and low pressure also feature in the top ten reasons for contact. This shows that the qualitative survey is impacted by wholesale service delivery, suggesting that good outcomes on these issues should still be incentivised.

The implications of option 2 are that:

- the financial magnitude of the current SIM (that is, the range of -1.0% to +0.5% on total integrated revenues) would translate to a larger percentage of the average allowed revenue of household retail businesses – we estimate a range of around -12% to +6% (although the precise range will be determined once we have access to companies’ business plan submissions); and
retail businesses will need to ‘contract’ with their wholesale businesses to pass on the service incentive (and appropriate part of the financial exposure) to their wholesale businesses. Our preference would be to leave the companies to choose how to do this, rather than prescribe the form that any such ‘internal contract’ should take.

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.
4. Detailed SIM design issues

As well as the core consultation questions, we are also consulting on a number of detailed design points – several of which will be informed by the position we reach on the objectives and scope issues. This chapter sets out options and, where appropriate, our current preference on these more detailed design questions.

In reaching these options we have reflected on our statutory duties and our price control principles. The customer protection duty is directly derived from our primary consumer duty, and so we have placed greatest weight on this duty.

4.1 Design issue 1 – symmetric or asymmetric incentive?

The current SIM incentive is asymmetric – that is, there is greater downside risk (maximum penalty of 1% of revenue) than upside potential (maximum reward of 0.5% of revenue). As we discussed in chapter 3, this is linked to the balance between incentivising further service improvement in frontier companies, and catch-up of the poorer performing companies. We are consulting on the following options.

- **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).
- **Option 3** – move to a symmetric incentive (for example, upside and downside both up to 1% of revenue).

We also considered moving to an asymmetric structure with more upside than downside incentive. But since we consider that, as a minimum, the SIM should continue to incentivise ‘catch-up’ efficiency we did not consider that such an incentive structure appeared appropriate. The responses we receive to consultation question 1 on the costs and benefits of further improvements in the frontier will help inform the range and scale of the incentive.

4.2 Design issue 2 – magnitude of financial incentive

We are also consulting on whether the current scale of the SIM financial incentive (+0.5% to -1% of revenue) should be changed. Figure 6 below shows the range and expected value of the current SIM incentive by company.
This level of total financial exposure under the current SIM has not presented the companies with financeability problems, with an expected downside of just 0.25% and maximum downside exposure of just 1% of turnover. As we noted above, the current SIM appears to be sufficiently material to have encouraged an improvement in performance throughout the range.

Our current preference is to broadly maintain the current magnitude of financial exposure under the SIM.

There is evidence, summarised above, that the current magnitude of financial incentive has been sufficient to deliver the sorts of service improvements for which SIM was designed. So, we consider that maintaining incentives at these levels for 2015-20 will continue to drive improvements in service delivery.

This issue is closely related to the question of the scope of the SIM incentive discussed in chapter 3. Retaining a similar magnitude of financial incentives would be consistent with encouraging retail businesses to seek the necessary contractual agreements/service level agreements (SLAs) with wholesalers given the exposure of retail household SIM scores to wholesale activities.
4.3 Design issue 3 – balance of qualitative and quantitative measures

The quantitative and qualitative components of the SIM score are currently evenly weighted (50/50). As we noted earlier, the UKWIR benchmarking study considered both elements are important because there is little point in knowing what customers think if you cannot measure what is driving that (complaints, for example).

We are consulting on the following options.

- **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.

There are arguments for change in both directions. The main argument for putting greater weight on quantitative measures is that, as shown in figure 7 below, the greatest difference across companies is in their performance against the quantitative criteria – hence it is in these areas that we wish to see greatest improvement from low performing companies.

Equally, there are arguments for putting greater weight on qualitative measures, including that companies may need to consider customers’ views on satisfaction relative to other sectors to continue to drive frontier improvement.

As figure 7 shows, the current SIM has, to date, had most impact on reported values of the quantitative components, but relatively little impact on the qualitative metrics. The fact that little improvement has yet been seen in qualitative measures of customer satisfaction may suggest the need to focus more weight on these metrics.

The UKWIR benchmarking study also considers a shift towards greater reliance on qualitative measures, to be consistent with trends in other sectors.
Our initial preference is to retain both types of measure, with some rebalancing over time to greater reliance on qualitative measures as may be appropriate, depending on consultation responses. Some of the designs of these measures could help reduce potential risks of manipulation of results, if that were considered to be a problem.
4.4 Design issue 4 – detailed design of the qualitative and quantitative measures

The options for the design of the quantitative and qualitative components of the current SIM are shown in table 1. They are grouped into three broad options, which we have summarised below, although we welcome any views on the individual elements.

- **Option 0** – current design.
- **Option 1** – make the minimum changes necessary to reflect the separation of household/non-household price controls. Specifically:
  - count only households in the quantitative metrics; and
  - where this is not possible, pro rata results by the proportion of household/non-household customers.
- **Option 2** – option 1 plus a number of other detailed design changes. Specifically:
  - include all contact routes in the unwanted contact measure (not just phone contacts);
  - remove phone availability measures (not easy to measure consistently);
  - shorten the qualitative survey by removing most ‘transactional’ questions; retain questions on experience drivers and satisfaction; and
  - keep survey sample as resolved contact, but remove notice period for surveying.
- **Option 3** – variation on option 2 (and one of the options identified by the UKWIR benchmarking). Specifically:
  - where the qualitative measures are reduced to counting only complaints received (by any contact media); and
  - where the qualitative measures are changed to a survey of contactees (regardless of stage/resolution of contact), modifying survey to use indicators like Net Promoter Score, Customer Effort and Service Quality.

Our preferred approach is **option 2**. Removing phone availability metrics will help improve reporting accuracy of the quantitative data, while simplifying the qualitative survey will help focus the companies on overall customer satisfaction with the service they receive. Keeping the resolved contact criteria will continue to give views of the complete service received rather than views of the stage or status of the issue. Removing the notice period will encourage call centres to give the same service every day since they would not know when they will be sampled for the survey.
Table 1 Summary of proposals for detailed design options (for all options assume re-focus to household customers and non-household customers in Wales)

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

4.5 Design issue 5 – use of absolute or relative performance

Under the current SIM, companies are penalised or rewarded according to their ranking against other companies in the sector. We invite views on whether to retain this approach. We are consulting on the following options.

- **Option 1** – retain the current relative incentive structure.
- **Option 2** – move to a system of rewards and penalties against an absolute performance level.
The disadvantages of the current ‘relative’ approach are that it:

- rewards a company for outperforming its peers, even if the absolute level of service is poor, and/or less than experienced in other comparable sectors; and
- could be perceived as only incentivising companies to beat the average score in the water sector.

But it is notable that the current SIM has encouraged companies to make some material improvements.

Also, a shift to an absolute approach would require us to define an ‘acceptable’ or ‘target’ level of customer service, which may be viewed as a disproportionate regulatory intervention. And since we are re-focusing the SIM to measure household customers only (and other possible changes as set out) setting a meaningful absolute measure in advance is virtually impossible. (We have little data to benchmark against.) There are sufficient companies in the sector to give us meaningful incentives, which are working well without us seeking to impose our own view of what might constitute an acceptable level of customer service.

**4.6 Design issue 6 – non-household SIM design for Wales**

In the methodology statement we committed to strengthening the protection for non-household customers in Wales by introducing a separate non-household SIM for Wales.

Most of the recommendations outlined above would apply equally to a non-household SIM in Wales. We are also consulting on the following issues over how such a SIM will be designed and work in practice.

**4.6.1 What should we measure performance against?**

As there will be only two large Welsh non-household businesses, it would not be appropriate to rank these against each other to determine which should receive a reward and which should be penalised. So, we are seeking views on the following options.

- **Option 1** – to exclude the Welsh non-household SIM scores from the determination of household incentive payments, but to determine the incentive payments for the non-household businesses by reference to how they rank alongside the household SIM businesses.
• **Option 2** – to set an absolute performance level for the Welsh non-household businesses, and trigger rewards and penalties on the basis of performance against that level.

4.6.2 **What measures should be included in a non-household SIM?**

We plan to use the same set of qualitative and quantitative measures as in the household SIM, as modified by the proposals set out above. We invite comments on whether any additions or modifications need to be made on these.

4.6.3 **How to handle a smaller sample size?**

The smaller number of non-household customers, especially in Dee Valley Water’s area gives rise to sample size issues for the proposed qualitative SIM metrics. We can see some solutions to address this including, for example:

- more frequent surveys;
- surveying all non-household customers rather than just those that contact the company; or
- combining samples across years.

We propose to keep this issue in mind as any changes are made to the qualitative sampling approach by seeking views from professional market researchers.

We invite any other views or ideas on these issues.
5. Next steps

The consultation closes on 31 January 2014. During the consultation period we plan to hold workshops in England and in Wales. We will confirm plans for these separately but the workshops are likely to be held early in the new year.

Once we have considered the responses, we will confirm the SIM methodology and how it will be tested during 2014-15, ready for full implementation for the 2015-20 period.