



SIM consultation workshop

24 January 2014

Agenda



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|-------------|---|---------------|
| 1 pm | Objective and context | Andrew Beaver |
| 1.10 | Incentive design questions | Sheila Miller |
| | Background to consultation questions | |
| 1.20 | Group discussion | |
| 1.50 | Each table feeds back | |
| 2.15 | Break | |
| 2.30 | Measure design questions | Sheila Miller |
| | Background to options 1 and 2 | |
| 2.40 | Julian Jacobs and Rob Sheldon update on the UKWIR research project (option 3) | |
| 3.00 | Group discussion | |
| 3.30 | Each table feeds back | |
| 3.55 | Next steps – expectations in test year | |
| 4 pm | Close | |



To facilitate discussion of SIM consultation proposals:

Ensure clear understanding
Air key issues and views
Debate questions raised

To provide opportunity for those not on working group to see high-level views emerging from UKWIR research

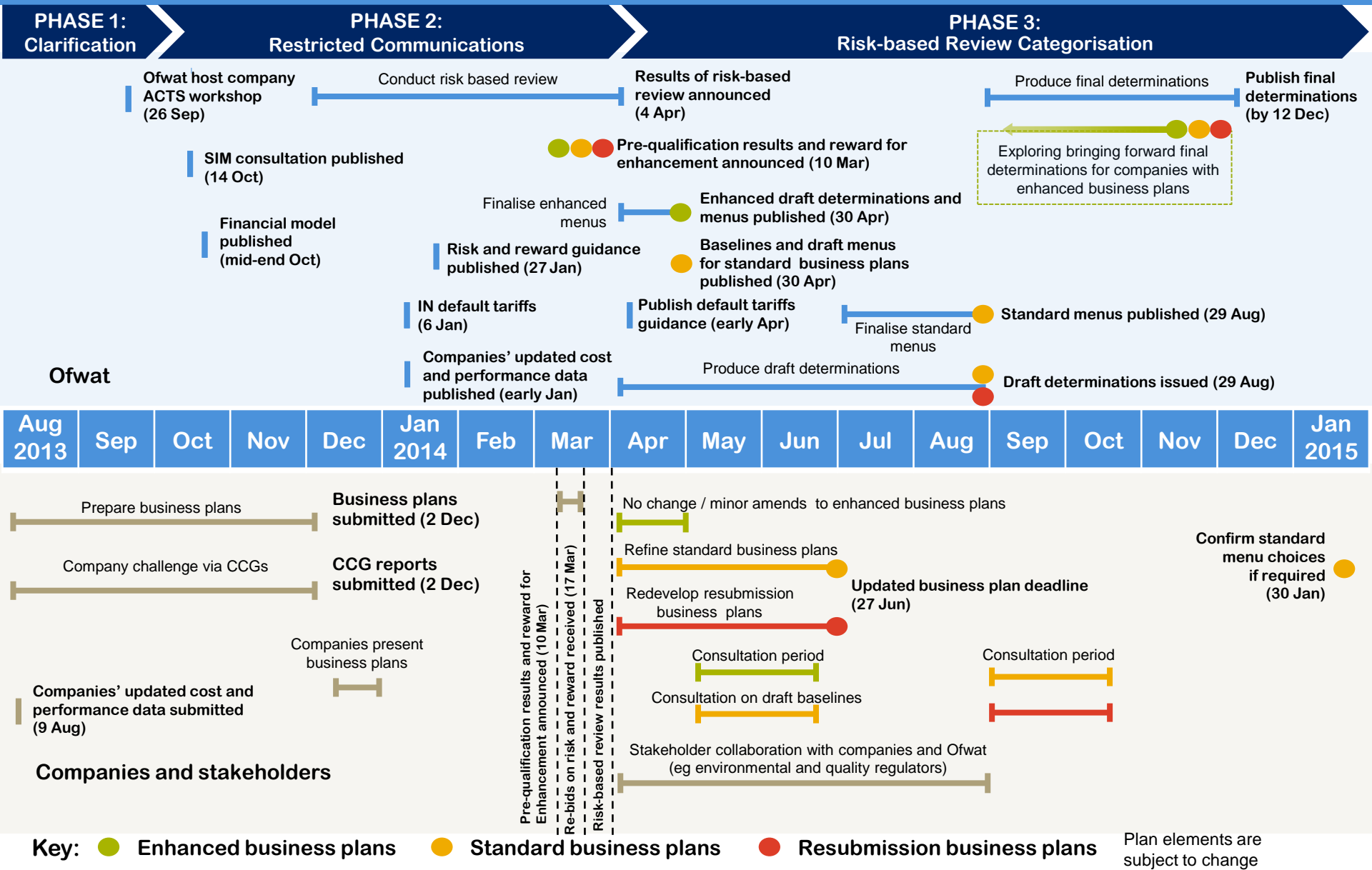
Timeline context



14 October	Published SIM consultation
2 December	Companies submitted business plans
19 December	IB 28/12 – set out changes to price review process (including risk and reward)
24 January	SIM workshop
27 January	Guidance on risk and reward
31 January	SIM consultation closes
wb 25 February	Meeting on non-household measure in Wales
By end of March	Confirm quantitative measure and testing
From April 2014	Testing of revised SIM quantitative measures, procurement and testing of SIM qualitative survey

[Incentive properties to be confirmed later in price review process]

PR14 plan v2.2 (updated on 7 January 2014)



Incentive design – background I



SIM was designed to improve services for all customers because comparative frontier improvement is rewarded and lesser performance is penalised

Reward is asymmetric in recognition that better service also delivers efficiencies and customers are more accepting of a money-back approach than premium pricing

SIM was designed to measure all aspects of customer service by (the survey) including service at all customer contact points and asking customers to recall the whole journey/transaction



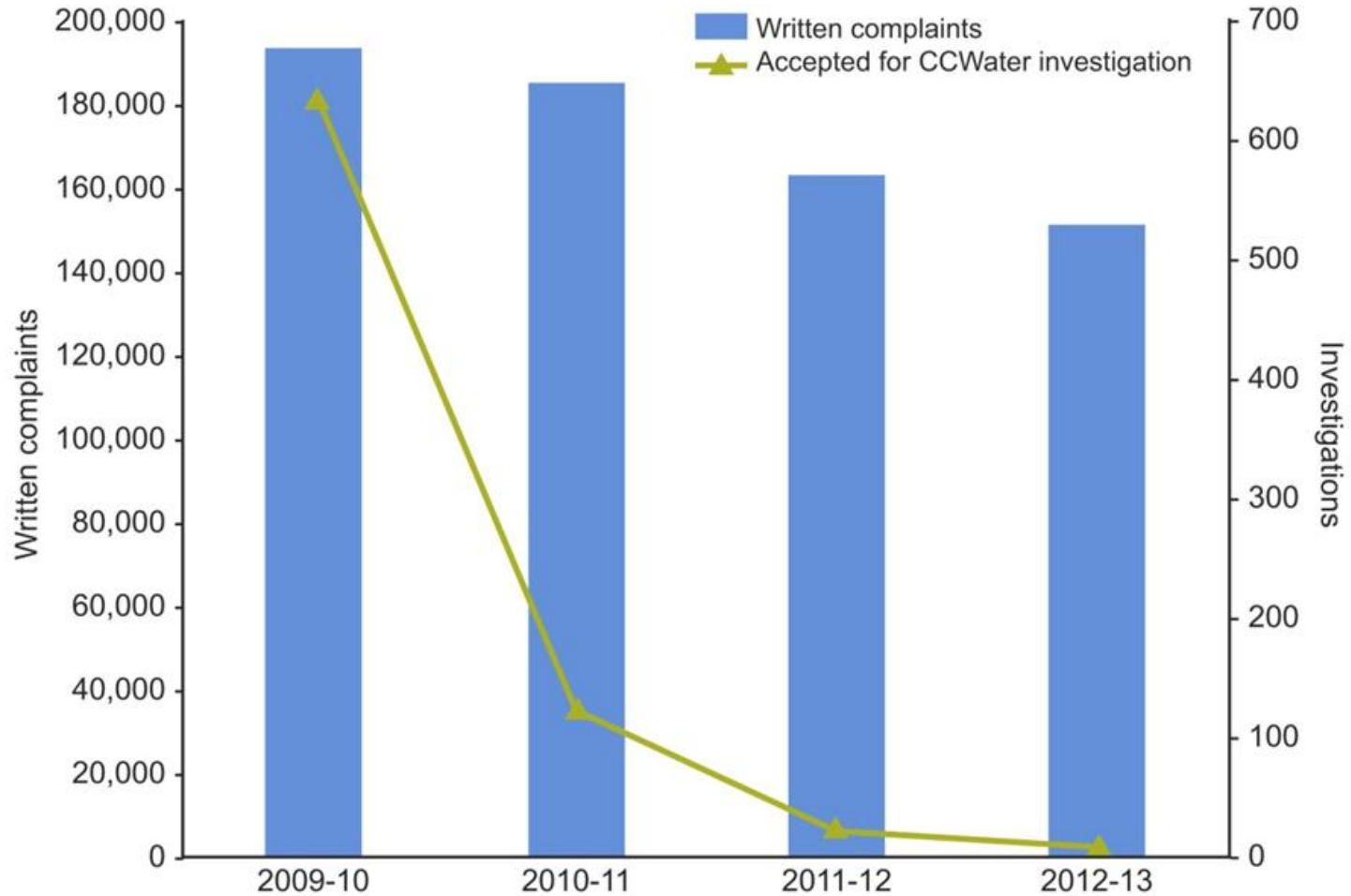
Rest of SIM is about failure demand – which can arise from operational (wholesale) and customer service (retail) actions/failures

Customers do not care who and how – they just want action/resolution

And it is working...

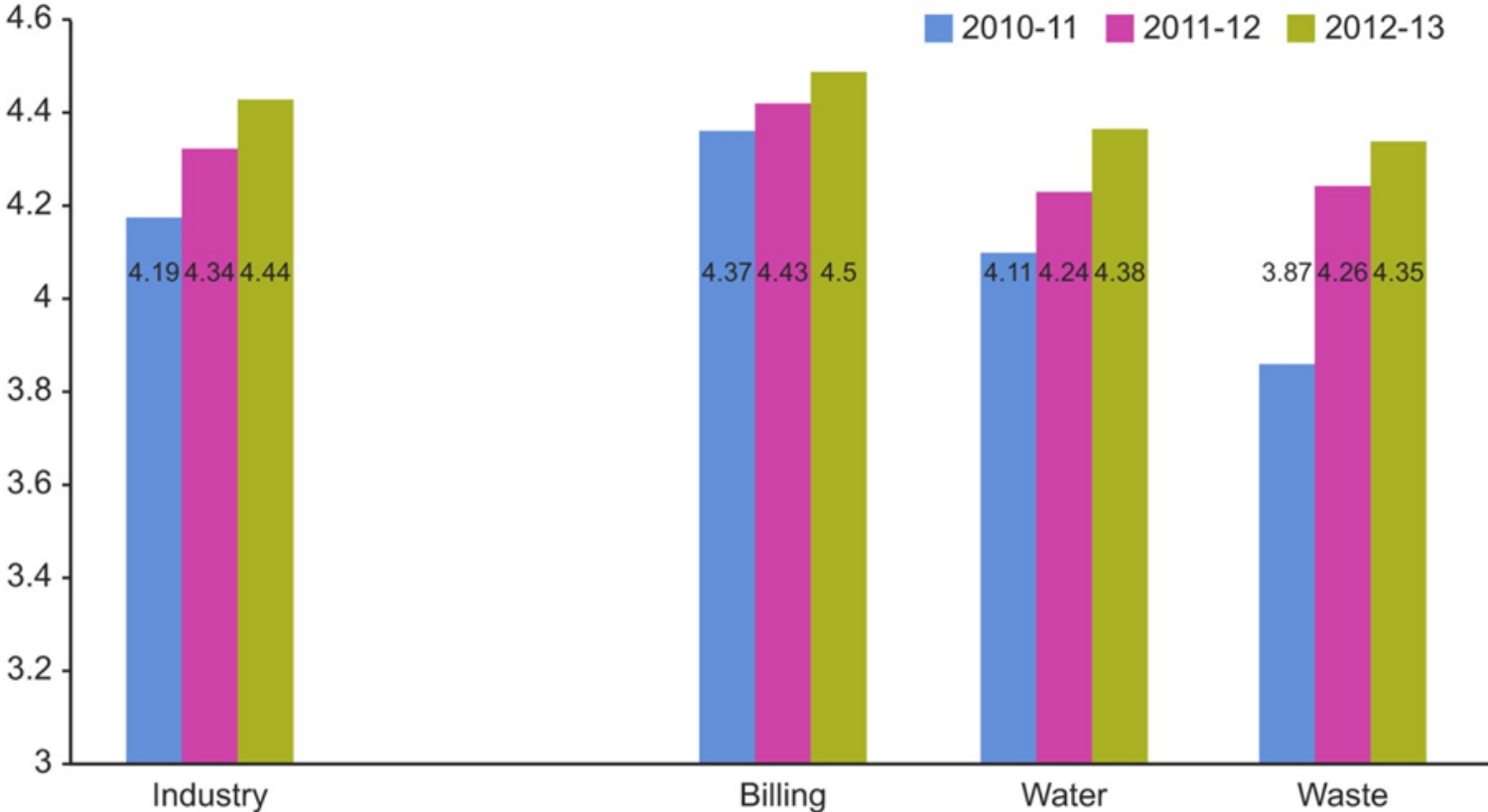
Reduced customer complaints and improved handling

As evidenced by fewer complaints investigated by CCWater



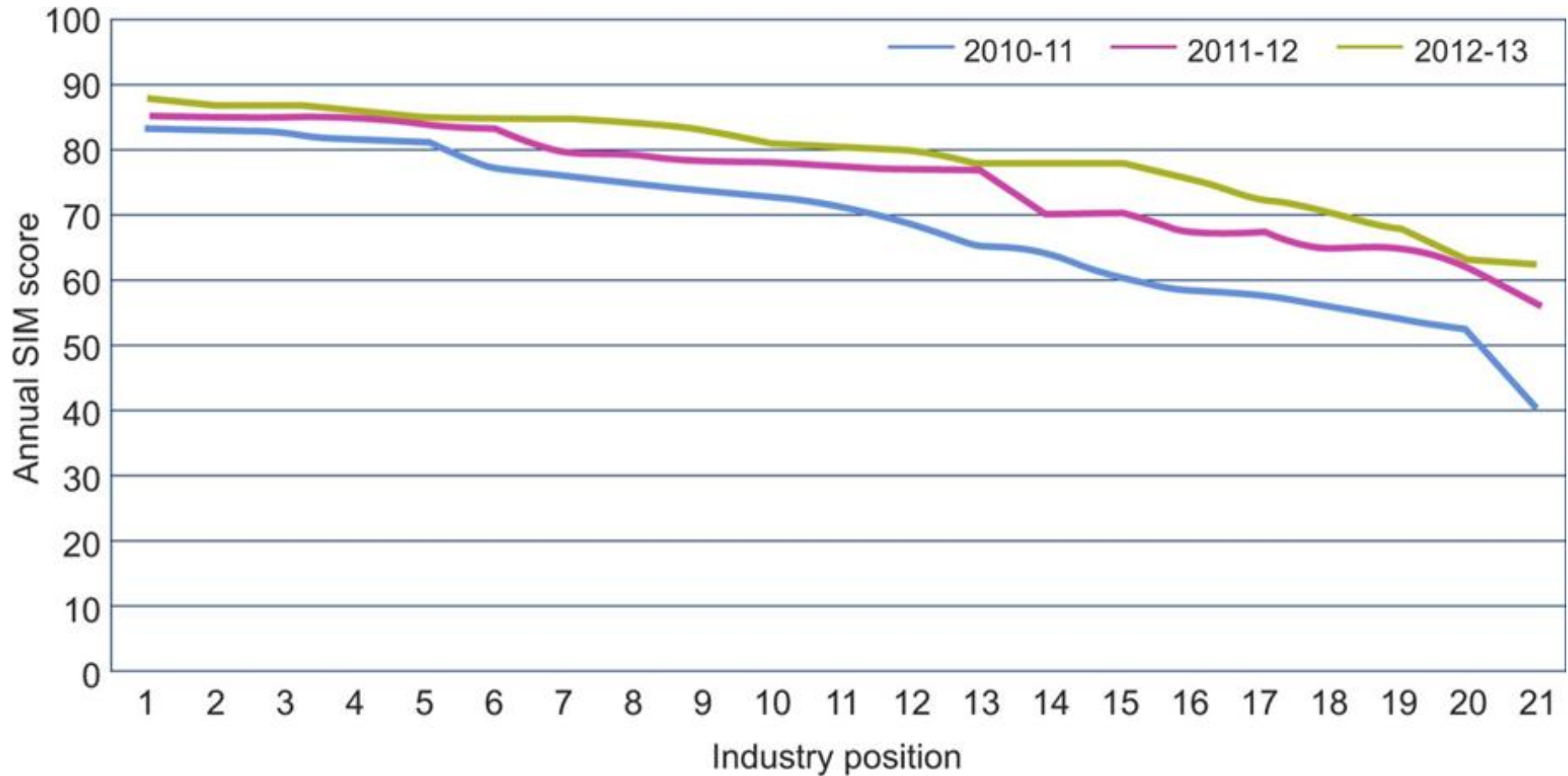
Improved customer satisfaction with the way contacts are handled

As measured by the SIM qualitative survey



Satisfaction mean score out of 5, where 5 = very satisfied
Sample size ~16,400 pa

SIM scores in rank order for 2010-11 to 2012-13





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
- Whether, and if so in which areas, further service improvement by frontier companies should be incentivised – and the benefits of doing so



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
- The proposition that we should leave companies to develop internal ‘contracting’ arrangements as they see fit, rather than be subject to any prescribed arrangements



Q3 – 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)
- Option 3 – move to a symmetric incentive (for example, upside and downside both up to 1% of revenue)

Q4 – 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?



Q7 – use of absolute or relative performance

We invite views on:

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

Discussion sessions



Different questions per table

30 minutes for discussion

5 minutes per table for feed back

Select a spokesperson

Tables 1 and 2 – Q1

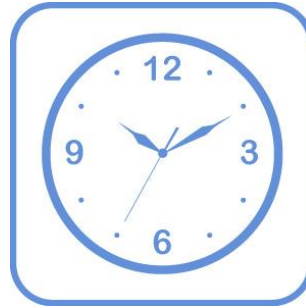
Table 3 – Q2

Table 4 – Q3 and 4

Table 5 – Q7

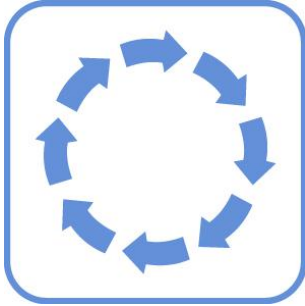
Copies of questions on each table

Break



15 minutes break

Measure design – reasons for change



Reflect different choices and services for household and non-household customers

Reflect customer changes – use of a wider range of customer contact channels

Further improve data comparability



Q5 – 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)
- Option 5 – remove the qualitative measures entirely



Detailed design of the qualitative and quantitative measures (tabulated in next slide)

- Option 1 – minimal changes
- Option 2 – streamlined current SIM
- Option 3 – revised approach arising from UKWIR project

Summary of proposals for detailed design options

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



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



Julian Jacobs (Atkins) and Rob Sheldon (Accent) to present work in progress from the UKWIR project to support option 3



Q8 – 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
- 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

Discussion sessions



Different questions per table

30 minutes for discussion

5 minutes per table for feed back

Select a spokesperson

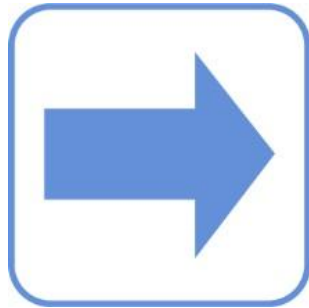
Tables 1 and 2 – pros and cons of options 1 and 2

Tables 3 and 4 – pros and cons of option 3

Table 5 – Q8 Non-household SIM in Wales

Copies of questions on each table

Expectations for the test year



January	UKWIR steering group Consultation closes
February	Discussion with Welsh stakeholders
March	Confirm quantitative measures for testing
April	Confirm and procure qualitative measures pilot testing

During year – work with companies to assess test data and methodology implementation

AIM to be in a position by end of year to confirm quantitative measures and procure qualitative measures that will run from April 2015