

13 December 2017

Trust in water

Delivering Water 2020: Our methodology for the 2019 price review

Appendix 3: customer measure of experience (C-MeX) and developer services measure of experience (D-MeX)

**Appendix to Chapter 4:
Delivering Outcomes for
Customers**

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1. Summary

Customer service is one of the four key themes of our 2019 price review (PR19). Providing a truly excellent customer experience for customers is fundamental for maintaining trust and confidence in the water sector.

This appendix sets out our approach to the customer measure of experience (C-MeX) and developer services measure of experience (D-MeX). This appendix supplements the information we set out in chapter 4 (delivering outcomes) of the [main methodology document](#). Our approach has been informed by responses to our July 2017 [draft methodology consultation](#) (“draft methodology proposals”) and by the working groups we have held with stakeholders since then.

The customer measure of experience (C-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.

The developer services measure of experience (D-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for developer services (new connections) customers. These customers include small and large property developers, self-lay providers (SLPs)¹, and those with new appointments and variations (NAV)s².

We make final decisions on the high-level features of C-MeX and D-MeX in this PR19 methodology statement. We are not making final decisions on all aspects of the design of C-MeX and D-MeX because we plan to pilot both of the incentive mechanisms in 2018-19. The final design decisions will be informed by these pilots.

¹ A developer can choose to “self-lay” the onsite infrastructure for a development site using an accredited contractor. The incumbent will subsequently take over responsibility for (adopt) the self-laid infrastructure.

² Under the New Appointments and Variations (NAV) regime a company can apply to Ofwat for a licence to replace the appointed undertaker as the monopoly provider of water and/or wastewater services for a specific site. The majority of applications are for new residential and mixed-use developments. A developer can choose between the incumbent, a self-lay provider or a NAV in order to provide connection services for a new development site.

Applicability to England and Wales

Our final methodology for C-MeX and D-MeX **applies to companies in England and Wales** because we want to incentivise companies to provide excellent customer experience to residential and developer services customers in both England and Wales.



Most business customers in Wales cannot choose their retail provider. Companies operating wholly or mainly in Wales will use their bespoke performance commitments to commit to providing excellent quality services to their business customers.

The pilots will inform our decisions on methodological issues such as survey sample sizes, the frequency of the surveys and the channels we will use. We will judge the methodology that results from the pilots for each incentive mechanism on the extent to which it:

- encourages companies to improve customer experiences and innovate;
- is simple and meaningful for companies and customers;
- is proportionate;
- is practical to implement; and
- measures performance across companies consistently, reliably and fairly.

We will produce final guidance for both the incentive mechanisms by March 2020.

Section 3 of [Appendix 15](#) outlines respondents' views to the questions we posed on C-MeX and D-MeX in our draft methodology proposals, as well as our responses, where they are not covered below.

This remainder of this appendix is structured as follows:

- Background to C-MeX and D-MeX (section A2);
- C-MeX: our decisions and proposals (section A3); and
- D-MeX: our decisions and proposals (section A4).

2. Background to C-MeX and D-MeX

The Service Incentive Mechanism (SIM), was introduced in 2010, to provide a reputational and financial incentive to encourage water companies to provide excellent customer service to residential (household) customers. There is evidence that the SIM has driven customer service improvements since its introduction.

However, there are a number of limitations with SIM:

- it is limited to comparisons within the water sector and so does not incentivise companies to reach the higher levels of customer service achieved in most other sectors;
- there is convergence in SIM scores with diminishing improvements at the upper end, which suggests that it is not effective at encouraging leading companies to improve the customer service frontier;
- it discourages companies from contacting their customers, which might constrain innovation, service improvement and customer engagement by water companies;
- it does not reflect changing communications technology and how customers interact with retailers; and
- it does not address the customer service experience of developer services customers.

In our draft methodology proposals we proposed to replace the SIM at PR19 with “WaterworCX”, as an umbrella term for a mechanism comprising two new measures:

- the customer measure of experience (C-MeX); and
- the developer services measure of experience (D-MeX).

We presented three options for the design of C-MeX and four options for our approach to D-MeX. We explained our preferred option for each measure. [Appendix 2 of the draft methodology proposals](#) provided details of our C-MeX and D-MeX proposals.

Taking into account responses from the draft methodology proposals and feedback from the workshops we have held since then, we are establishing C-MeX and D-MeX for PR19, to help address the issues we mention above. This appendix considers each incentive in turn. For simplicity, we will refer to the incentives separately, rather than using the umbrella term “WaterworCX”.

3. C-MeX

The customer measure of experience (C-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.

3.1 Overview of our final position on C-MeX

Our decisions for the final design of C-MeX are set out in the main methodology statement. We are not making final decisions on all aspects of the design of C-MeX because we plan to pilot the incentive mechanism in 2018-19. The final design decisions need to be informed by these pilots. Those aspects of C-MeX which we have finalised are set out in the outcomes chapter of the methodology statement.

In summary, the following areas of our decision represent a change from our preferred consultation option in the draft methodology proposals. These areas are:

- 1) Rather than basing the customer service survey on customer satisfaction with both the handling and resolution of a matter, which requires only contacts deemed to be 'resolved' to be included in the sample, the customer service survey will be based on any direct customer contact, even if it has not been resolved.
- 2) The experience survey, referred to as the 'non-contact survey' part of C-MeX, will be based on a random satisfaction survey of customers. This may include some people who have contacted their company, whereas, previously, we proposed it would only cover those who had not.
- 3) We will test the use of Net Promoter Score (NPS) in the C-MeX pilot. We will decide after the pilot whether to incorporate NPS into C-MeX in some form.
- 4) Rather than applying only a reputational incentive on complaints performance, we are adding a new criterion (a 'gate') for achieving higher performance payments based on satisfactory performance on complaints. As per the consultation, these higher performance payments will be between 6% and 12% of residential retail revenues over the control period.
- 5) Companies will need to offer at least five communication channels, including at least three online channels, to receive contacts and complaints. This compares with the proposed four channels, of which at least two needed to be online. We maintain our approach of applying a downwards adjustment to a company's C-MeX score if it does not adhere to our requirement.

The areas of detail, which we plan to determine after having carried out the C-MeX pilot, include:

- whether NPS will form part of the financial incentive;
- the weightings of the customer service and customer experience surveys within the C-MeX calculation;
- the definition of satisfactory performance on complaints in relation to higher performance payments;
- the source of data for the cross-sector challenge; and
- methodological issues including sample sizes for in-period incentives, and channels for the surveys.

We plan to adopt the implementation timetable for C-MeX set out in Table 1, below. We plan not to run the SIM in 2019-20, but to run a shadow version of C-MeX instead.

Table 1 – C-MeX implementation timeline

Stage	Timing
C-MeX pilot design and procurement process	January 2018 – March 2018
Run the pilot	April 2018 – March 2019
Finalise C-MeX methodology	April – August 2019
Run C-MeX year in shadow form	April 2019 – March 2020
Publish C-MeX guidance	March 2020
Run C-MeX	April 2020 – March 2024

3.2 Further detail on our proposals and decision on C-MeX

3.2.1 The issues we are seeking to address through C-MeX

We are seeking to address issues that currently exist, by replacing the SIM with C-MeX at PR19. These are as follows:

- The water sector has **relatively low levels of customer service satisfaction**, compared with other sectors of the economy. In the July 2017 UK Customer

Satisfaction Index (UKCSI)³, no water companies appeared in the top 50 organisations. In addition, the average customer satisfaction score of the water companies in the index was 76.5, compared with the UK all-sector average of 78.2⁴.

- **Customers' behaviour and preferences around interacting with service providers are changing as technology changes.** The future incentive needs to take account of these changes, and of the opportunity they create for water companies to innovate to improve the customer experience.
- Based on the [2016-17 SIM results](#), there appears to be **convergence of SIM scores**, with 13 of the 18 companies scoring within 5 percentage points of one another. This can make it difficult to differentiate company performance and drive innovation.
- SIM can **discourage companies from proactively addressing customer concerns** if this generates customer complaints or unwanted contacts that would then be penalised by the quantitative component of the SIM.⁵ This perverse incentive can also encourage companies to make it difficult for customers to contact them, and can distort how companies use their communication channels to handle issues.

3.2.2 C-MeX options and our proposed position, as set out in our draft methodology

We consulted on three options for the design of C-MeX, as summarised in Figure 1, below:

³UKCSI is a measure of customer satisfaction in the UK, run by the Institute of Customer Services. It is based on data from on a six-monthly online survey of consumers in 13 sectors of the economy. Further information can be found here: <https://www.instituteofcustomerservice.com/research-insight/uk-customer-satisfaction-index>

⁴The 13 sectors covered in the [July 2017 UKCSI](#) ranked in order of highest to lowest were: Retail (Non-food); Retail (Food); Tourism; Leisure; Banks & Building Societies; Automotive; Insurance; Services; Public Services (National); Public Services (Local); Utilities (which includes water and energy) Transport; and Telecommunications & Media. Within the Utilities sector, water scores higher than energy.

⁵The quantitative component of the SIM comprises the number of written complaints and unwanted phone contacts (i.e. where the phone contact is 'unwanted' from the customer's point of view), received by the company.

Figure 1: Summary of C-MeX options that we consulted on in July 2017

	Customer service quarterly satisfaction survey via online channels, of contacts based on the handling and resolution of a recent matter or complaint	Customer experience quarterly satisfaction survey via phone, of customers who have not contacted their company	Net promoter score using monthly data submitted by companies of the net proportion of customers who would recommend their water company	Complaints volumes based on application of updated guidance (includes complaints made via social media)
Option 1	50% weighting	50% weighting	Not applicable	Reputational incentive
Option 2	40% weighting	40% weighting	Not applicable	20% weighting
Option 3	40% weighting	40% weighting	20% weighting	Reputational incentive

All options: Combined into a single C-MeX score benchmarked against an upper quartile UKCSI all-sector threshold

The key elements of the three options were:

Option 1 – customer service survey (50% weighting in the financial incentive) and experience survey (50%) + reputational incentive for complaints.

Option 2 – customer service survey (40%) and customer experience survey (40%) + complaints (20%).

Option 3 – customer service survey (40%) and customer experience survey (40%) + NPS (20%).

Option 1 was our preferred option in July 2017; the main elements of which, were as follows:

- C-MeX would incentivise companies to improve the broader customer experience, across the retail and wholesale parts of the value chain.
- The financial element of C-MeX would consist of two parts, each with 50% weighting:
 - the satisfaction of customers who contact their company with a query or complaint, with the handling and resolution of the matter; and
 - the satisfaction of customers who have not contacted their company.

- C-MeX would have a reputational incentive on complaints performance. We would also widen the definition of 'complaint' to include those made via any channel, including social media. We would stipulate that companies must offer at least four customer communications channels, at least two of which, should be online.
- C-MeX would offer higher potential financial performance payments⁶ than the SIM (making the maximum performance payments the same as the maximum performance penalties), but the higher performance payments would only be available to companies that perform well, compared to the upper quartile performance of other sectors. This would incentivise the water sector to catch up with the higher levels of customer service found in many other sectors.
- We would rank companies annually based on their C-MeX scores, and publish results. Each year:
 - the top three performers would receive a performance payment of up to 1.2% of residential retail revenues (1.2% annually holds the incentive at the same level as the SIM of 6% of residential retail revenues over 5 years);
 - higher performance payments of up to 2.4% of residential retail revenues would only be available if a company is within the top three performers and performs at or above the cross-sector threshold (2.4% annually equates to 12% of residential retail revenues over 5 years); and
 - the poorest performers would receive a penalty of up to 2.4% of residential retail revenues annually, (2.4% annually holds the incentive at the same level as the SIM of 12% of residential retail revenues over 5 years).

We are not making final decisions on all aspects of the design of C-MeX because we will pilot the incentive mechanism in 2018-19, and the final design decisions need to be informed by these pilots. As a result, we have not yet decided between option 1 and option 3 (or slight variations on them). We have ruled out option 2 for the reasons set out below (about creating disincentives for companies to engage with their customers), but we will use satisfactory performance on complaints as a gate to accessing higher performance payments.

⁶ Performance payments are gained through high performance, and performance penalties are for poor performance by companies, during the relevant period of assessment. These payments are realised through an adjustment to the revenue that companies are allowed to recover from customers in the following period.

3.2.3 Responses to our methodology proposals on C-MeX

The consultation responses generally revealed agreement with our proposal for C-MeX as a replacement for the SIM, especially on the inclusion of customers who have not contacted their water company.

There were mixed responses about the proposed survey methodology, mainly in relation to sample sizes and the channels to be used. There were some concerns about using UKCSI as a cross-sector benchmark for higher performance payments. Some respondents also highlighted the potential impact on C-MeX, of the new [General Data Protection Regulation](#), due to come into force in 2018. Additionally, respondents raised some concerns around leaving complaints out of the financial incentive and not having a customer experience incentive for independent retailers' experience of the service they receive from wholesalers.

We discuss the key issues that respondents raised, below. Since the consultation, we have held two C-MeX industry working groups to discuss some of the practical aspects of implementing C-MeX. The notes and slides are available on our website, [here](#).

Other issues, such as issues that a single respondent raised, are covered in [Appendix 15](#).

Responses: scope of C-MeX

Retailers

In the draft methodology proposals, we said we were not proposing to cover retailer satisfaction with wholesaler services through C-MeX (or D-MeX). This is because the business retail market operates within a legal framework which regulates the behaviour of market participants. We said that, as the market is at an early stage of development, it is not yet clear what, if any, service incentive would best fit the needs of retailers. In addition, as Market Operator Services Limited (MOSL) monitors wholesaler performance, there are procedures for retailers to raise disputes about wholesalers.

We received two responses in relation to this issue. These respondents understood the reasoning behind our proposed approach, but considered it would be risky for PR19 not to include any means of incorporating business retailer feedback into an incentive mechanism. The respondents suggested that the methodology should leave this point open. They considered that the experience of the market over the

coming years should be used to inform whether a version of C-MeX for business retailers would be appropriate.

Taking into account these consultation responses, we will continue to monitor the development of the business retail market and work with MOSL, retailers and wholesalers to ensure that wholesalers are encouraged to deliver good-quality customer service to retailers. Within the retail market review, we will continue to explore if and how wholesalers are incentivised in relation to the services they provide to retailers. If it is appropriate to introduce an incentive mechanism, we expect to do this in the draft determinations.

Business customers served by companies operating wholly or mainly in Wales

We consulted on a version of C-MeX for business customers who are served by companies operating wholly or mainly in Wales and who cannot choose their supplier.⁷ Our proposal was to continue to implement a reputational incentive for companies operating wholly or mainly in Wales, to provide good-quality services to their business customers who are not eligible to switch retailer. We also proposed that companies operating wholly or mainly in Wales should have at least one performance commitment for their business retail price control.

CCWater considered that we should develop a form of C-MeX for the business customers served by companies operating wholly or mainly in Wales who cannot choose their retailer, because it is important to protect these customers. CCWater suggested that the incentive could be similar to residential C-MeX, although comparisons would be limited to companies operating wholly or mainly in Wales only. We could use data from CCWater's quarterly reports that monitor contacts from business customers served by companies operating wholly or mainly in Wales, as well as its business customer satisfaction survey, [Testing the Waters](#)⁸, which it runs every two years.

We have reflected further on our draft methodology proposals. We note that the Testing the Waters research is conducted every two years, which is in part due to the fact that it can be challenging to get a representative sample of business customers to carry out the satisfaction survey more frequently. We consider we could not base an incentive on performance measured every two years as this would be insufficient to adequately protect this group of customers. While we could use more frequent information on business customer contacts in Wales, we are moving

⁷ Only large water customers in Wales can choose to have a different retailer. We focus here on those business customers who cannot choose their supplier.

⁸ Once every two years, CCWater carries out Testing the Waters which is a survey of business customers' views on their water and sewerage services covering England and Wales. The latest October 2016 results show that satisfaction amongst businesses in Wales was 95% while satisfaction with sewerage services fell significantly between the two surveys (71% in 2016 versus 83% in 2014).

away from this for C-MeX for residential retail customers because of the disincentive it can give companies to engage with their customers.

We carried out further engagement with stakeholders after the consultation. We found that the two companies who would be covered by a C-MeX for business customers in Wales would support using commitments proposed by each company to provide an excellent customer experience to their business retail customers. These “bespoke” performance commitments are designed for just these sorts of issues which do not apply to all companies across Wales and England. We also consider that even if we could design an effective C-MeX for business customers in Wales, it would only compare two companies and would not add much additional power to companies’ bespoke performance commitments.

Therefore, based on the consultation responses and subsequent stakeholder engagement, we have decided that it would be more appropriate for companies operating wholly or mainly in Wales to use their bespoke performance commitments to commit to providing excellent quality services to their business customers, rather than having a C-MeX for this group of business customers.

Responses: design of C-MeX

Overall design

As described above, our preferred consultation option involved using a single metric to assess performance, applying financial and reputational incentives, to encourage companies to provide a better customer experience. We proposed an equal weighting for the customer service (“contact”) and customer experience (“non-contact”) surveys.

Most respondents agreed with the inclusion of the customer experience survey in C-MeX, although one expressed concern that the customer experience measure may be affected too much by ‘brand awareness’. Another respondent suggested that the experience survey should carry a weighting closer to 25% within the financial incentive calculation, as it is new. A respondent commented that C-MeX would be improved by splitting it into two C-MeX measures - ‘C-MeX satisfaction’ (to include NPS) and ‘C-MeX contacts’.

We will retain C-MeX as a single, but composite measure. This is to keep it as the single main focus for customer experience, to provide clear incentives for companies to respond to effectively.

Regarding survey weightings, we will determine the final weighting of each survey in C-MeX after the pilot.

Complaints and contact channels

In the consultation, we proposed removing the quantitative (written complaints / unwanted phone contact) element of the SIM from the financial incentive, but retaining the reputational incentive to reduce complaints.

We also proposed widening the definition of 'complaint'. This would mean that a complaint would not be defined by the channel by which the customer contacted the company, but would include complaints made through any channel, including social media (where the customer is able to be identified). We said we would work with CCWater to ensure the sector applies the updated guidance consistently.

We also stipulated that companies must offer at least four communications channels to receive those customer contacts and complaints, including at least two online channels. We proposed applying a downwards adjustment to a company's C-MeX score, if it did not adhere to this requirement.

Two respondents said that including social media could cause unintended consequences in terms of reducing the incentive to provide a broad range of contact / engagement channels. Another respondent agreed that the term 'complaint' should include all channels and have a clear definition.

We have decided to continue with our preferred approach of **widening the definition of a complaint**, such that it is not defined by the channel through which the customer contacted the company. For the avoidance of doubt, this standard definition will apply to companies in England and Wales. CCWater, as the body that captures data on consumer complaints, is working on updating its complaints guidance to take forward the implementation of this approach. We recognise that this definition change could increase the reported number of complaints across the industry. If it did, we would work with the sector to help explain the reasons for any changes.

One respondent was pleased to see the stipulation of at least four **communication channels**, with at least two online. However, it considered that we may need to be more prescriptive to be able to compare water companies on C-MeX, if there is flexibility around channels. Another respondent considered that asking companies to provide only a minimum of four channels was not a sufficiently ambitious requirement. The respondent suggested that companies should be expected to offer customers all channels for communication.

Following responses to the consultation, we have decided that, because social media can be counted as an online channel, **companies should offer at least five channels, including at least three online channels**, to receive contacts and complaints. We maintain our approach of applying a downwards adjustment to a company's C-MeX score if it does not adhere to our requirement. We are not

prescribing the channels that companies should (or should not) offer. This is to make sure that companies take ownership for their communication channels. It is also to futureproof the incentive mechanism for new forms of channel becoming available. We do however expect companies to offer social media as one of their channels to receive contacts and complaints.

Complaints and the financial incentive

In the consultation, we proposed removing complaints from the financial incentive and relying on a reputational incentive. This is because we received feedback that including complaints and unwanted contacts disincentivises companies from proactively carrying out activities and initiatives that would benefit customers because they could generate contacts and complaints, which would be penalised through the SIM.

Four respondents considered that complaints should not be removed from the financial measure. The main reasons were that complaints are an important metric of customer experience, are easy for customers to understand, and that removing complaints from the financial incentive risks there being cases where companies receive high financial performance payments for customer service at the same time as having relatively high complaint volumes. One respondent said that option 2 (where complaints were included in the financial incentive) could be developed to include escalated complaints and CCWater investigations. Another was of the view that there is still merit in retaining different weightings within the complaints measure for escalated complaints, which act as a good way of incentivising first time resolution.

We remain of the view that applying a financial incentive to the number of complaints can lead to a perverse incentive against good customer engagement and participation. However, we also agree that excellence in customer service should be associated with lower and falling levels of complaints. We consider that it would be inappropriate for a company to earn higher C-MeX performance payments but perform poorly on complaints.

We are introducing **a condition, or gate, to access the higher performance payments** available under C-MeX, based on satisfactory complaints performance. For the avoidance of doubt, this gate would be applicable to all companies, regardless of geographical differences. We consider this approach will mitigate the perverse incentive that exists with a direct financial incentive based on complaints numbers, while at the same ensuring that companies take customer complaints seriously and take steps to address and manage them effectively. We note that the annual publication of industry complaints data by CCWater will also continue to provide a strong reputational incentive on companies to manage complaints effectively.

There are several options for how the gate could operate. For example, it could be based on the number of complaints per connection and / or relate to escalated complaints and CCWater investigations per connection. We are not defining the gate in this statement, as we will develop it during the C-MeX pilot phase, while the work on updating the complaints guidance progresses. We will communicate the design of the gate after the C-MeX pilot has been completed.

Incorporating Net Promoter Score (NPS) into C-MeX

Consultation option 3 was to include a 20% weighting for NPS in C-MeX. NPS is a customer experience metric, developed as an alternative to customer satisfaction. It is calculated from responses to a single question, typically: “On a scale of 0–10, how likely would you be to recommend this company / service to a friend or colleague?” Responses are classed as “Promoters”, “Detractors” or “Passives.” The NPS score ranges from -100 to +100.

We consulted on using NPS in option 3 for a number of reasons. NPS is arguably a more demanding test for companies than customer satisfaction and is often:

- administered by text message;
- convenient for customers; and
- inexpensive for companies.

NPS is also used in similar contexts, for example, in the NHS to drive improvements through its [Friends and Family Test \(FFT\)](#).⁹ However, we recognise that NPS has its drawbacks. Our [2016 report by Economic Insight](#) on a future service incentive for water, concluded that NPS has shown evidence of unexplained fluctuations. This may make it less reliable than customer satisfaction, as NPS is more likely to be affected by external factors than solely company performance.

We did not receive a large number of consultation responses on NPS. One respondent suggested that NPS should be avoided because it is not relevant in a monopoly situation. It was highlighted that research exists to suggest that measuring the quality of the customer experience is better. Another respondent considered that NPS’s focus is too narrow and customer satisfaction is more reflective of overall performance. A respondent suggested that if an NPS measure is to be used, it would be better to be gathered as part of our own survey, rather than through data supplied by companies. This would ensure independence. A further respondent, who already collects NPS data, said it could easily be collected as part of the C-MeX surveys.

⁹ Since 2013 the NHS has been using its FFT, which is based on NPS methodology, and asks patients whether they would recommend the services they have used. The FFT receives over a million responses per month and is used to highlight areas in need of service improvements.

At one of our C-MeX working groups, we found that while views were split on the merits of NPS, six of the companies present already used this metric. Attendees agreed it would be sensible to include both NPS and customer satisfaction in the piloting process.

Taking account of responses and evidence, we are minded to maintain **customer satisfaction** as the ultimate outcome to be tested through C-MeX. However, through the C-MeX pilot, we will further explore ways to include the NPS question, before deciding whether it would be appropriate to include NPS in some form in C-MeX as part of the financial or reputational incentive. Using the pilot survey results, we will make this decision based on, for example, the level of challenge that NPS provides to companies, the stability of the scores and the credibility of the results, compared with the other two surveys in C-MeX.

Cross-sector benchmarking

We consulted on offering higher C-MeX performance payments for companies outperforming a cross-sector benchmark, perhaps based on upper quartile performance on the all-sector UKCSI, to incentivise companies to deliver stretching levels of customer experience.

Most respondents agreed that the principle of cross-sector comparisons would help to drive performance improvements, but concerns were expressed, to varying degrees, about the use of UKCSI as the source of the benchmark and the methodology we suggested we could use to calculate the benchmark.

In relation to the **concept of cross-sector comparisons**, some responses suggested that water is different from other sectors. One respondent questioned whether it is reasonable to expect a customer to rate a provider of a utility compared with a provider of “desirable” goods and services. Two respondents preferred **NPS** to UKCSI. Eight respondents questioned the appropriateness of UKCSI, due to concerns over the comparability of water with other sectors and small sample sizes¹⁰ and the ability to translate it into a C-MeX equivalent.

We are not aware of a readily available source of cross-sector data based on NPS, other than from the UKCSI, which includes an NPS element. UKCSI appears to be the most appropriate and accessible data source for cross-sector customer satisfaction benchmarking. It is well established and used, for example, by Ofgem in its Broad Measure of Customer Satisfaction (BMCS) incentive package for the RIIO-

¹⁰ UKCSI is based on an online survey of over 10,000 individual consumers who self-select five companies with which they have had an interaction over the last three months and rate their experience over 30 metrics, including staff professionalism, complaint handling, trust and reputation.

ED1 electricity distribution price control¹¹. We note we are only using UKCSI to inform the setting of the threshold for higher C-MeX performance payments based on the gap between water company performance and that of other sectors, rather than to directly incentivise companies.

We are minded to continue with our proposal of using UKCSI as the source for the cross-sector challenge. We will assess, during the pilot, whether NPS, which itself would be drawn from UKCSI, would be more appropriate. We intend to **set the cross-sector threshold each year when we reconcile C-MeX**.

Applying incentives in-period versus end-of-period

In the consultation, we proposed that the C-MeX financial incentives would be applied in-period (reconciled for each year individually rather than at the following price review) to strengthen the incentive for companies to improve the overall experience of their customers, more quickly. We proposed increasing the overall sample sizes for the C-MeX surveys to 400, by including the experience survey.

We did not receive many comments on the principle of applying incentives in-period, except for comments around ensuring that the sample sizes are robust which, as mentioned below, we will address through pilots.

We confirm that we will apply the C-MeX financial incentives in-period each year.

Responses: implementation of C-MeX

Definitions

In the consultation, we proposed maintaining the definitions of ‘customers’, ‘households’ and ‘developer services’ that are set out in the current [SIM guidance](#). We proposed adopting some additional definitions: ‘service users’, ‘bill payers’, ‘contacts’, ‘non-contacts’ and ‘complaint’. We had some specific comments around the proposed definition of certain terms. These comments, and our responses, are included below and in [Appendix 15](#).

We consulted on the customer service survey being based on ‘contacts’ and the customer experience survey being based on ‘non-contacts’. We included proposed definitions of those terms.

¹¹ Ofgem’s BMCS includes a customer satisfaction survey (CSS). [Ofgem’s consultation](#) mentions using UKCSI to inform Ofgem’s approach for deciding an incentive target (see page 5, under question 3). Ofgem’s subsequent decision is [here](#).

We received comments that further clarification was needed of 'contact' in terms of exactly which interactions are included in each survey, for example whether interacting via an organisation's website would be counted as a contact.

We have decided that the customer service survey will continue to use the same definition of contact as for the SIM, where an identifiable customer makes direct contact with their company.

We have changed our approach to the customer experience survey. As explained above, it will be based on a random selection of customers (who may or may not have contacted their company), not just the 'non-contacts'. This means we no longer need to define 'non-contact.'

We will include final definitions in the final guidance for C-MeX and D-MeX, which we will discuss via working groups and develop after the pilot has been completed. We discuss the definition of 'complaint' briefly below, which is part of the work CCWater is carrying out on revising its guidance on complaints.

Resolved contacts

In the consultation, we proposed that the customer service survey should be based on customer satisfaction with the handling and resolution of the matter through an online survey. We received a number of responses on this aspect of our proposal.

A number of respondents did not agree that the customer service survey should distinguish between the resolution and handling of a contact. One respondent pointed out that carrying out the quarterly satisfaction survey on resolved contacts would require companies to have to decide when the contact is resolved. This could lead to inconsistency between companies. Another respondent was concerned that companies would only submit contacts for review where they have received confirmation from the customer that the matter is resolved. This might overstate overall customer satisfaction with handling contacts.

At one of the C-MeX working groups, the attendees strongly favoured surveying all contacts, not just those that had been resolved. It was considered that the discussion of this issue when the SIM was developed, still applied.

We will use all contacts in the C-MeX customer service survey, in the same way that we currently do for the SIM.

The customer experience survey and overlap with other surveys

As mentioned above, the customer experience survey will be based on a random selection of customers and will not filter out those who have made 'contact'. While

this approach may lead to some overlaps in the customer service and experience sample base, this is likely to be relatively small and there is no reason why we should not ask customers who have contacted their company (contacts) about their overall experience of a water company. CCWater's [Water Matters](#) customer research, a telephone survey of residential water customers, is based on this randomised approach for consistency and efficiency.

We are exploring, with CCWater, ways in which CCWater's survey could form part of the sample dataset for the customer experience survey for C-MeX, to avoid duplication.

Customers served by different water and wastewater suppliers

We mentioned in the consultation that for the experience survey there is an issue about how to deal with customers who are served by different companies for their water and wastewater services (some are billed by one company, some by both). There is a question about how the surveys differentiate between customer views on retail service, wholesale water service and wholesale wastewater service.

One respondent commented that for the experience survey, we need to consider how it operates in areas of the country where water and wastewater services are provided by different companies. Another respondent suggested that customers who are served by more than one water company, should be told up-front that the survey is specifically about one service provider, not the other.

We note that CCWater's [Water Matters](#) research includes both those who have contacted their company and those who have not. That survey deals with the issue of customers served by different water and wastewater providers through upfront questions in the telephone survey. We can address this issue through the design of the C-MeX pilot in 2018-19.

Sampling

We received a number of comments in relation to sampling. The most common concern was that the surveys would benefit from larger sample sizes, in particular if C-MeX is linked to an in-period adjustment and higher performance payments, and uses lower-cost surveying channels.

One respondent suggested using a sample based on a representative proportion of each company's customer base. We also received comments that for the customer service survey, all companies should be assessed on contacts over a consistent time period. One respondent commented that we should conduct the survey much closer in time to the customer contact date.

For the customer experience survey, one respondent suggested that a ‘timeframe’ may be needed to make sure that sample sizes are not too small, for example, people who have not made contact in the last 12 months.

Our consultation proposal was to use samples of 200 people per survey, per company, per quarter. As we will be using both the customer service and customer experience survey, this would mean that C-MeX would be based on surveys of 1,600 people, per company, per year. We consider this to be a reasonable sample size, but we will look further into sample sizes as part of the C-MeX pilot.

Survey channels

In the consultation, we proposed the customer service survey would be carried out online (or possibly via text message) and that the customer experience survey would be conducted via telephone.

We received some comments in relation to the survey channels proposed. Two respondents commented that more research should be undertaken into likely impacts on response rates of different types of survey (eg, text or online). A further two respondents suggested that the customer service (contact) survey should not be done online due to online surveys suffering from very low response rates, and the time required to complete the survey to an acceptable level. We also received some comments, including through the C-MeX working group, that the customer service survey should be performed via the customer’s chosen channel of contact.

We think there is some merit in the concept of conducting the surveys using the channel through which the customer contacted a company. We will consider it as part of the C-MeX pilot.

General Data Protection Regulation

Three respondents were concerned about how the new General Data Protection Regulation would affect our ability to collect data for the contact survey. This was because customer details passed by companies to us for survey purposes might require explicit informed consent on behalf of the customer. We will explore this issue as we design our pilot for C-MeX and will consult with CCWater and companies who already carry out similar surveys.

Adjusting C-MeX scores for company-specific factors

One respondent was concerned that affluent customers generally give lower satisfaction scores. The respondent suggested setting affluence quotas to ensure a comparable level of affluence within the surveyed sample, across companies.

The respondent also mentioned that the percentage of metered contacts has a bearing on the speed of resolution, as many metered queries cannot be resolved at the point of contact. The respondent suggested splitting the survey into metered and unmetered contacts.

We are not minded to make adjustments to C-MeX on the basis of company-specific factors because this could lead to a large number of adjustments, complication and a lack of transparency in C-MeX results. However, we will not make a final decision on this point until after the C-MeX pilot, in case it demonstrates a clear case for a specific adjustment.

‘Over surveying’

One respondent expressed concern about how the eight sets of surveys we proposed each year might contribute to the ‘over surveying’ of customers.

We are exploring the possibility with CCWater of using its Water Matters research to form part of the customer experience survey. This comment shows there is a need to strike a balance between the benefits of large sample sizes and the potential costs of over surveying. However, we do not consider that the eight surveys we are proposing each year would lead to over surveying.

Timetable

One respondent commented that the original timetable, in which we suggested publishing final guidance in March 2020, is too late for companies. It was suggested that December 2019 is a more realistic deadline.

We understand that the move from the SIM to C-MeX might require companies to make some systems changes. Through the working groups and pilots, we will remain engaged with stakeholders, including companies, to ensure that they are aware of our developing approach to C-MeX. In addition, because we plan to run C-MeX in shadow form in 2019-20, we consider that companies will have time to make any systems changes needed before we apply financial incentives to C-MeX from April 2020 onwards. We confirm that we will publish the final C-MeX guidance in March 2020, or earlier if possible.

Development of the C-MeX pilot

We will address the implementation points with the company that we commission to help with the design and operation of the C-MeX pilot.

4. D-MeX

The developer services measure of experience (D-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for developer services (new connections) customers. These customers include small and large property developers, self-lay providers (SLPs), and new appointments and variations (NAVs).

4.1 Overview of our final position on D-MeX

Our decisions on D-MeX are set out in the main methodology statement. We are not making final decisions on many aspects of the design of D-MeX because we plan to pilot the incentive mechanism in 2018-19. The final design decisions need to be informed by these pilots. We will continue to engage with the D-MeX working group (the Task and Finish Group as referred to in the draft methodology proposals) on the D-MeX pilot.

The following areas represent a departure from our preferred consultation option in the draft methodology proposals, and are explained in more detail below:

- In addition to a customer satisfaction survey, we have decided that the financial incentive for D-MeX will partly be based on a quantitative measure of water company performance against a set of key metrics. These metrics will be based on [Water UK's](#) existing metrics of service levels for developer services customers, and any future iterations of the metrics.
- We have revised our approach to the financial incentives on D-MeX. We have decided that the financial incentive for D-MeX will be asymmetric: performance payments will be up to 2.5%, and performance penalties will be up to 5%, of a company's annual developer services revenue.

In addition, we will continue to work with the D-MeX working group of developer services customers, water companies and other stakeholders to further explore issues. These include:

- how best to develop and implement the survey(s), such that it is as representative of developer services customers as possible;
- the precise existing or additional metrics to be used for the quantitative part of D-MeX;
- whether different approaches are needed for different types of developer services customers;

- details of how the financial incentives operate, including the weightings to be applied to the two elements of the financial incentive;
- the scope for taking account of any company-specific factors;
- the design of the D-MeX pilot in 2018-19; and
- how to adapt D-MeX, if necessary, based on the results of the D-MeX pilot.

It should be noted that **D-MeX will apply to** water company performance in relation to **both contestable and non-contestable services**. We recognise that the case for applying D-MeX to contestable services is weak in principle. However, in practice, the case is stronger because there is little or no market entry in some companies' areas.

Table 3 – D-MeX implementation timeline

Stage	Timing
D-MeX pilot design and procurement process	January 2018 – March 2018
Run the pilot	April 2018 – March 2019
Finalise D-MeX methodology	April 2019 – August 2019
Run D-MeX in shadow form	April 2019 - March 2020
Produce D-MeX guidance	March 2020
Run D-MeX	April 2020 – March 2024

4.2 Further detail on our proposals on D-MeX

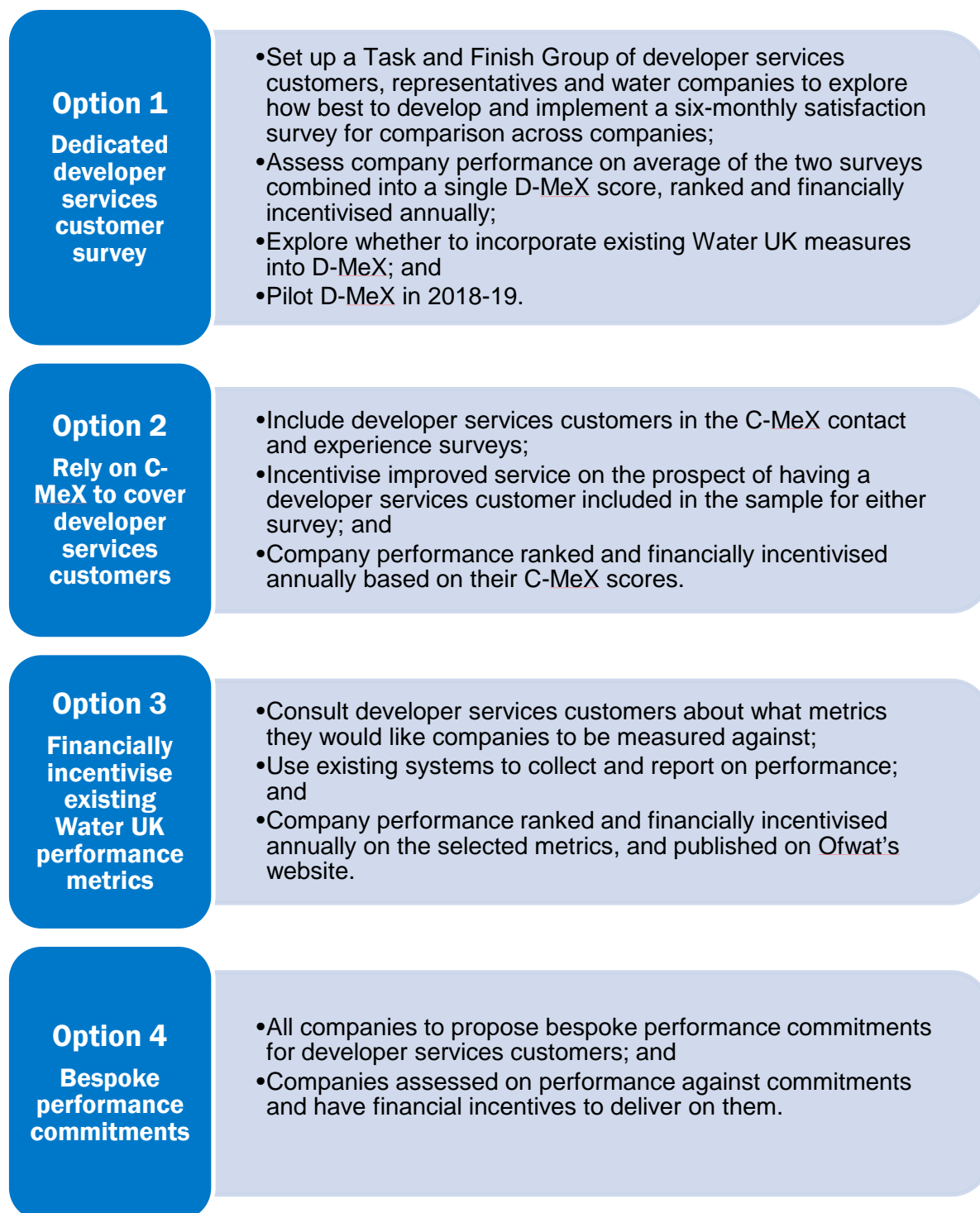
4.2.1 The issue we are seeking to address through D-MeX

Since July 2015, Water UK has published [quarterly performance results](#) for water companies, against a set of standards that developer services customers can expect for the provision of a range of new connection services which, in turn, enable housing growth. Despite this, developer services (new connections) customers continue to raise concerns with us about poor quality service from water companies. While the Water UK reporting has encouraged improvements in the timescales for service delivery, we consider that more needs to be done to improve the quality of customer service received.

4.2.2 The D-MeX options and our proposed position as set out in our draft methodology

We consulted on four options for D-MeX, which are summarised in Figure 2, below.

Figure 2: Summary of D-MeX options that we consulted on in July 2017



In our consultation we provided the following additional detail on our preferred option (option 1), as follows:

- We would establish D-MeX as a new incentive, with financial and reputational components for developer services (new connections) customers.
- We would set up a D-MeX working group of developer services customers and water companies to further explore: a) how best to develop and implement a regular satisfaction survey that could be compared across companies, and b) whether the existing Water UK quantitative measures should be incorporated into D-MeX in any way.
- Our initial preference was that D-MeX would:
 - rank company performance annually;
 - apply financial performance payments and performance penalties, for the best and worst performers, of up to 5% of annual developer services revenue;
 - apply the performance payments and penalties annually; and
 - be piloted in 2018-19.

We have decided that the design of D-MeX will incorporate elements of option 1 and option 3 for the reasons mentioned in the discussion of the responses below. However, we are not making final decisions on all aspects of the design of D-MeX because we plan to pilot the incentive mechanism in 2018-19. The final design decisions need to be informed by these pilots.

We have ruled out option 2 because applying the same survey to residential and developer services customers, who have different needs, services and expectations, is unlikely to drive service performance for developer services customers as sharply and as a clearly as a dedicated survey.

We have also ruled out option 4 because it limits the ability to compare companies and the related reputational incentives, which could drive benefits in terms of improved services to developer services customers. It would also increase the burden on developer services customers, who would have to interact with up to 17 different company approaches.

4.2.3 Responses to our methodology proposals on D-MeX

There was general support for the introduction of D-MeX, and that we are taking more account of developer services customers at PR19. There were specific concerns relating to the case for D-MeX - its scope, purpose, design and financial incentives. We discuss these concerns below. It should be noted that since the consultation, we have held three D-MeX working groups to discuss some of the

practical aspects of implementing the incentive mechanism. The notes and slides are available on our website [here](#).

Below, we cover the main issues raised in the consultation responses. Certain points, such as one-off issues raised by a single respondent, are covered in [Appendix 15](#).

Case for D-MeX

As stated above, while most respondents were positive about establishing D-MeX, two respondents were concerned that making D-MeX one of the 14 common performance commitments gave it as much prominence as C-MeX, which seemed disproportionate. One respondent was of the view that companies alone are not responsible for developer services, with local and national government having a role. A respondent considered a better approach would be to allow companies to address service improvements through bespoke performance commitments that reflect the areas their customers identify as requiring improvement. Another respondent considered that D-MeX should initially be applied as a purely reputational incentive, due to the concern about basing a financial incentive on the views of a small sample of customers.

We welcome the support from many respondents for the introduction of the D-MeX. We consider that developer services are important and we are concerned about the feedback we have received about poor levels of service. We consider D-MeX, by using comparisons across companies and financial incentives, will be more effective than bespoke performance commitments, and purely reputational incentives, at driving better service for developer customers. We consider D-MeX to be a necessary and proportionate approach for incentivising a step-change in the quality of service delivered to new connections customers, which we are developing in conjunction with our stakeholders.

Scope of D-MeX

We received some queries about what is meant by 'developer services'. Respondents questioned whether we are referring only to new connections or all activities, such as land sales. We were also asked at what stage of the customer journey services are eligible for inclusion in D-MeX. This point also arose at the D-MeX working group.

We said in our consultation that D-MeX would apply to 'developer services' (or new connections) customers, which consists of developers, SLPs and NAVs. We use the term 'new connections' to describe an instance where a customer requires:

- access to the existing public water supply or wastewater system by means of a service pipe or lateral drain; and/or
- a new water main or public sewer.

This includes where the statutory water / sewerage company:

- adopts new infrastructure that SLPs or developers have provided; and
- enables a point of connection to a NAV for a development to be served by them.

We agree that for the purposes of D-MeX, there needs to be consistency across companies in terms of the services that are included in 'developer services'. Rather than defining the scope of D-MeX by customer type, we are planning to do this by the nature of the services involved. We will continue to engage with the D-MeX working group to understand how water companies currently organise their 'developer services' offerings.

Purpose of D-MeX

Our draft methodology preferred proposal was that D-MeX scores would be based on a survey of customer satisfaction, to incentivise companies to improve the experience of developer services customers.

A number of SLPs and an SLP representative, suggested that D-MeX should promote competition rather than customer satisfaction. They were concerned that our proposal could result in a company with very little competition in self-lay provision earning D-MeX performance payments, if it performed well in terms of customer satisfaction. One suggestion was that companies should only be eligible for a performance payment if they meet a particular threshold in terms of competition. Another respondent suggested that D-MeX should highlight and address areas with low levels of competition in connections.

We are taking a number of steps to **better enable competition in new connections and ensure a level playing field for new entrants**, including:

1. [Our Code for Adoption Agreements for England](#) published in November 2017. This is a single code for the agreements that developers or SLPs enter into when they want a water or wastewater company to take over responsibility for infrastructure they have constructed. The Code makes the market work better by reducing information and procedural barriers that might prevent developers and self-lay providers from competing with companies to provide new connections. It provides for:

- greater consistency among companies;
 - more transparency about companies' requirements;
 - companies committing to minimum service levels for input services; and
 - companies committing to customer redress, where these are not met.
2. Introducing [rules for new connections charging for water companies wholly or mainly in England](#) which come into effect from April 2018.¹² These rules require water companies to set their charges in accordance with the principle that they should promote effective competition. There are also specific protections that facilitate competition, such as a rule about how any income offset¹³ shall be calculated.
 3. Our commissioned [study into the NAV market](#)¹⁴ investigated how the NAV market is working and considered the extent to which any factors currently act to prevent or restrict the ability of the market from achieving its full potential. The study identified a number of potential barriers faced by NAVs wanting to participate in the market. As a result of this work, we are taking forward a number of actions to address the concerns raised by stakeholders and those cited in the study.

As explained above, we are already taking a number of steps to better enable competition in new connections. We want to focus D-MeX on improving the quality of service that developer services customers receive, which is an area that these customers have raised as a concern. Therefore, we are maintaining our approach that the **focus of D-MeX is on promoting a better quality service experience and customer satisfaction** for new connection services. Our approach complements the other measures we are taking to better enable competition in new connections.

Financial incentives

We consulted on the financial incentives under D-MeX being in the form of performance payments and penalties of up to 5% of a company's annual developer services revenue¹⁵. These would be applied annually, so that the payments apply closer in time to the performance that generated them.

¹²In early 2018, we plan to commence work on introducing new connections charging rules for companies operating wholly or mainly in Wales. The timing will depend on when the Welsh Government finalises its guidance in this area.

¹³Income offset is an allowance for the income that will be generated from the new properties being connected to the water or sewerage network, to be offset against the costs reasonably incurred in providing that infrastructure.

¹⁵ Our initial view is that developer services revenue includes, as a minimum, revenue for the following services, for both water and wastewater: infrastructure charges, connections charges and requisitions, before any deduction for efficiency incentives.

One respondent agreed with setting incentives at a level of 5% of annual developer services revenue. Another described the performance payments available under D-MeX to be “significant” and stated that for some companies they could be worth £1million annually.

We have revised our approach to the financial incentives on D-MeX after considering the responses to the methodology consultation. We consider that because D-MeX is a new incentive mechanism we need to adopt a cautious approach when deciding the level of financial incentives attached to it. The information we have received from stakeholders suggests that there is considerable room for improvement in the overall quality of service water companies provide to developer services customers. We found, when SIM was first introduced, that applying an asymmetric incentive mechanism with greater scope for penalties than performance payments was effective in improving the service levels of poor performing companies as they improved their service quality to avoid penalties. We have therefore decided that the financial incentive for D-MeX will be asymmetric: performance payments will be up to 2.5%, and performance penalties will be up to 5%, of a company’s annual developer services revenue.

Avoiding perverse incentives

One respondent commented that they would not want an incentive mechanism to encourage inappropriate behaviour on the part of the developer or the water company. Another was concerned about the influence individual developers may have on the score. One respondent was concerned about the opportunity for SLPs and NAVs to skew the results by being included in the survey. The argument was that SLPs and NAVs are competitors to water companies. These competitors have an incentive to score companies low, as well as having nothing to gain from giving water companies a high score. This respondent proposed that we test for these issues, and solutions to them, in the pilot.

Two responses suggested that the financial incentives for D-MeX should not be linked to developer services income. One reason given was that this could impact directly on charges to developers. Developers could subsequently feel incentivised to rate companies poorly, in the expectation that this could lead to lower prices in the future. Another reason given was that higher volumes of independently provided connections will reduce developer services revenues. As a result, companies would be disincentivised from enabling competition, as it will reduce the size of their potential D-MeX performance payments and penalties.

One respondent questioned whether customers in general will bear the D-MeX incentive payments, or whether developer services customers will. The respondent considered that the former would not seem fair, while the latter does not seem appropriate. This is because a developer may, for example, end up paying increased

prices because of good performance given to different developers in the previous year. Another respondent considered that it was unclear how the NAVs' revenue will be insulated from poor performance by incumbent water companies.

We do not want D-MeX to create perverse incentives. We note that in principle some of these issues apply to customer ratings in SIM and there is no evidence of perverse incentives having been created for SIM. As we design D-MeX, through the pilot and working groups, we will aim to ensure that the sampling of developer services customers is as representative as possible.

The D-MeX incentive payments will apply to the network plus water and network plus wastewater price controls. This means that the impact of any incentive payments or penalties will be spread across those price controls. It is up to companies how they recover or repay the D-MeX incentive payments from, or to, their customers, within our charging rules. Companies can recover these in a way which avoids perverse incentives or disproportionately affects the prices for other customers.

To avoid the disincentive to being open to competition, the 2.5% and 5% of developer services revenue (for performance payments and penalties, respectively) can be fixed in advance for each company, so that changes in competition have no effect on the size of the incentive payments. We can explore the details of how the financial incentives operate further as part of the D-MeX working groups.

Incorporating the Water UK metrics into D-MeX

Some respondents commented that D-MeX should be used in addition to, or incorporating, the existing Water UK Levels of Service metrics. Another respondent suggested that using the Water UK metrics was appropriate because they have been tested and are already driving improved performance.

However, one respondent considered that financially incentivising the existing quantitative metrics alone was not a viable option. This is because, in this respondent's view, the metrics lacked credibility among developer services customers, and several of the metrics that are 'information only' do not form part of the overall performance figures. Finally, this respondent believed it should be mandatory for water companies to report on all the published metrics.

We discussed the addition of the Water UK metrics at one of the D-MeX working groups. We have decided that the addition of a quantitative element, based on these metrics, would be helpful. This is because these are established metrics, developed over several years with the sector, and their inclusion in D-MeX was supported by developer services customers. However, we propose that only a subset of these metrics should be included in D-MeX – those which developer services customers consider to be most important. Therefore, we will work with the D-MeX working

group to select which existing (or additional) metrics should be included. The final decision on which metrics to include in D-MeX will be taken by Ofwat.

Minimum levels of service

One respondent representing the self-lay community suggested part of D-MeX should be based on companies meeting guaranteed minimum levels of services.

The Government has not set guaranteed minimum levels of service for developer services. However, the addition of the Water UK metrics, or a subset of them, in the financial incentive of D-MeX will incentivise companies to achieve better levels of service.

Separately, our Code for Adoption Agreements requires companies to commit to minimum levels of service for input services and to provide customers with appropriate redress for failure to meet their commitments. We expect companies to comply with this requirement, as set out in the Code, from 2 April 2018.

Alignment with market developments

Since we published the consultation and our D-MeX proposal, we have published our [Charging rules for new connection services for English undertakers](#) (August 2017) and our [Code for adoption agreements for water and wastewater companies operating wholly or mainly in England](#) (November 2017).

One respondent cautioned that the industry is currently going through a significant period of transformation in relation to the charging structures and legislative requirements. The respondent suggested that it will be important that the D-MeX survey process is designed to take account of such sector developments. This point was echoed by another response, which noted that early proposals for the business retail market included developer contacts being primarily handled by retailers, rather than wholesalers. This might mean D-MeX should not apply to wholesalers. A further respondent noted that developer services offered by retailers are currently suspended from the market codes and that they were due to come into effect in October 2018. It was suggested that the D-MeX working group should work in collaboration with the business retail market governance arrangements, to ensure that the two are fully aligned.

We are designing D-MeX to complement the other developer services market developments, such as the charging rules, the code for adoption agreements and follow up work to the NAV study, mentioned above.

In relation to the business retail market codes we understand that developer services customers would be able to choose whether to continue to interact with the

wholesaler, even when the developer services parts of the market codes are fully implemented. This would mean that the D-MeX incentive will still be relevant. At the time of publishing this methodology statement, developer services remain suspended from the market codes. We will continue to develop D-MeX and the pilot, but we will coordinate with the business retail market governance arrangements, in order to make sure that the two are fully aligned.

Customer segmentation

One respondent commented that the different segments of developer services customers will be an important consideration in the development of D-MeX. The respondent considered that there should be appropriate representation from large developers in the surveys, as these repeat customers represent a significant proportion of the overall value of developer services transactions.

We discussed customer segmentation in the working group and whether it would be necessary to segment customers in the design of D-MeX, for example in the survey samples. We note that one of the benefits of segmentation is that developer services customers are a wide ranging group in terms of size and structure, and have differing needs. If we took no account of such differences we might expect, for example, high volume one-off connection jobs to effectively 'drown out' the views of other developer services customers. Conversely, having many segments would add complexity to D-MeX. In addition, using more segments is likely to result in smaller sample sizes, which would make it more difficult to make comparisons across companies.

We have not finalised a decision on segmentation at this point. However, we note that Ofgem's incentive for new connections customers for its [RIIO-ED1 electricity distribution price control](#) has just two segments: large and small connections customers.

The D-MeX survey

In the consultation, we proposed carrying out a six-monthly customer satisfaction survey for the qualitative part of D-MeX based on developer services customer contacts. We presented two ways in which this could be implemented and, for each method, customers would be asked about both their satisfaction with the handling of their original matter, and their overall experience with the water company:

- In our preferred approach, companies would provide us with data on contacts made by developer services customers in the previous months. We said that a sizeable proportion of this sample (cleansed for duplication, etc) would be selected at random for each company, and surveyed via telephone by our appointed third party.

- In the alternative option, water companies would ask each of their developer services customers to appoint a single individual point of contact for the purpose of responding to satisfaction surveys. We would then conduct a satisfaction survey with these points of contact.

We received a number of comments regarding the **survey sample**. One respondent suggested that sample sizes should reflect that smaller companies may work with a much smaller selection of developers. One respondent noted that for some of the smaller companies, 25% sampling of all contacts may not give statistically significant results (and meaningful comparisons) whereas it may be too large a sample for large companies. Another respondent agreed the sample size would need to be representative of the total number of contacts, but the volume of contacts could make this impractical. This respondent also raised the question of how we would ensure that a customer's past experience was not included within the current survey response.

Several respondents commented on the issue of **identifying contacts** for the survey process. One respondent agreed in principle with the use of a satisfaction survey, but believed this will be difficult to implement in practice, for a number of reasons. These included, the challenge around identifying who the 'customer' is and deciding at what point in the process they should be surveyed. In support of the second challenge, one respondent suggested that care needs to be taken with regards to the contact point with the developer to ensure all aspects of service are tested, not just the interviewee's area of responsibility. Another respondent considered that developers are unlikely to be receptive to water companies asking them to nominate a key contact for surveys. This respondent supported the use of random contacts over a defined period as an alternative.

In terms of **survey frequency**, two respondents proposed quarterly customer satisfaction surveys, rather than a six-monthly one. One respondent's experience of the SIM meant that six-monthly intervals felt too infrequent. The other commented that due to the volume of potential contacts through a multi-stage (development) process, it may be beneficial to align the frequency of D-MeX to that of C-MeX, to provide more data and further opportunities to identify trends, issues and improvement areas. In addition, surveying a customer about an experience that took place six months previously may not provide a true reflection of the actual level of service the customer experienced. Another respondent commented that as development schemes are very fast moving it is essential that the customer is surveyed when the contact is fresh.

We recognise that some developers use consultants to handle their contacts with water companies and that there could be a number of people within a developer who might have had contact with the water company at different stages of the new connections process. We plan to discuss the issues of identifying contacts for the

surveys, survey frequency and the survey sample, with the D-MeX working group. We will address these key issues through for the D-MeX pilot.

Assurance and consistency across companies

One respondent considered that it would be important that any survey results that are submitted for D-MeX are subject to independent audit. Another was of the view that there should be an opportunity to review outlier scores as they might be unsubstantiated and based on personal attitudes. Reflecting on the experience of setting up of the current quantitative Water UK measures, another respondent noted that there is a big challenge in having clear and understandable definitions to make sure all companies are being monitored in exactly the same way.

While one respondent was of the view that D-MeX needs to be completely standardised across companies, others considered that there was a need to recognise regional variations. One respondent was of the view that in areas where developers are more likely to incur network costs relating to growth (eg, in the south east of England), their satisfaction may at least, in part, be related to the need to contribute to that extra cost. This respondent recommended that the survey design be explicit about surveying service separately from price. Another respondent was keen to understand how the expectation levels in different parts of the country can be accounted for. A further respondent commented that there are some important differences between Wales and England in relation to developer services that D-MeX would need to take into account.

We are taking account of the regulatory differences between England and Wales as we design D-MeX, for example that mandatory adoption of sewerage infrastructure exists in Wales, whereas it does not in England. While we recognise that national and regional differences exist we are not minded to apply company-specific or other adjustments to D-MeX, to avoid undue complexity. However, we will discuss companies' proposed adjustments through the D-MeX working group before making a final decision after the pilot. In terms of quality assurance, it is highly likely that the customer survey will be carried out by a third party research company to ensure independence and consistency among companies. We can address the points around assurance through the piloting phase.

Timetable

We received some comments that the implementation timeline for D-MeX proposed in the consultation needs revising. One respondent was keen for more clarity on the timing of the pilots. Another respondent considered that the pilot should be held earlier than proposed, and that it would be necessary to have the final guidance earlier than March 2020. This is to ensure that companies are able to comply with

the final guidance well in advance of April 2020 (when the incentive comes into effect).

Through the D-MeX working group and pilots, we will remain engaged with stakeholders, including companies, to ensure that they are aware of our developing approach to D-MeX. In addition, because we plan to run D-MeX in shadow form in 2019-20, we consider that companies will have time to make any systems changes needed before we apply financial incentives to D-MeX from April 2020 onwards. We confirm that we will publish the final D-MeX guidance in March 2020 or earlier, if possible.