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Trust in water

PR19 Customer Measure of Experience (C-MeX): Policy decisions for the C-MeX shadow year 2019-2020

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1. About this document

The December 2017 PR19 final methodology¹ ('the final methodology') set out our decision to introduce a new incentive mechanism at PR19 to incentivise water companies to provide an excellent customer experience to residential customers. This measure is called the **customer measure of experience (C-MeX)**.

After we published the PR19 final methodology, we appointed Navigator Research and its sub-contractor Allto Consulting ('Allto') to pilot C-MeX. The recommendations from the pilot conducted by Allto, as well as the views of the stakeholder working groups, informed our decisions for the shadow year. Following this, the C-MeX shadow year will run from 1 May 2019 to 31 March 2020.

This document outlines the key features of C-MeX from the PR19 final methodology, explains the policy decisions that have been taken for the shadow year and details outstanding issues which will be tested during the shadow year. This document is structured as follows.

Section	About the document
2	This section provides an introduction to C-MeX including our engagement process
3	This section outlines the C-MeX Pilot
4	This section outlines our decisions on C-MeX incentive design for the shadow year
4.1	Survey methodology for both Customer Service and Customer Experience surveys
4.2	Customer Service survey methodology including the online correction factor and survey weighting
4.3	Customer Experience survey methodology
4.4	Inclusion of the Net Promoter Score in C-MeX
4.5	The financial incentives
4.6	The higher performance payments
4.7	Publication of data
5	Next steps including the timetable for the shadow year
Annexes	working group meeting dates and summary of stakeholder responses on C-MeX

¹ The summarised features of C-MeX were set out in Delivering Water 2020: Our final methodology for the 2019 price review: <https://www.ofwat.gov.uk/publication/delivering-water-2020-final-methodology-2019-price-review/>.

The shadow year will provide an opportunity to test C-MeX to inform decisions for how C-MeX will be run during the 2020-2025 period. We plan to publish our decisions on C-MeX incentive design in the PR19 Final Determinations in December 2019.² As set out in the PR19 final methodology, the Final C-MeX guidance for companies will be updated and published by March 2020 ahead of C-MeX becoming operational from 1 April 2020. See Section 5 for more detail on what we propose to do in the shadow year and our timetable.

This document is published as part of a set of documents on C-MeX and D-MeX. These include:

Document Name	Author
PR19 C-MeX guidance for the C-MeX shadow year 2019 2020	Ofwat
PR19 D-MeX guidance for the D-MeX shadow year 2019 2020	Ofwat
PR19 D-MeX Policy decisions for the D-MeX shadow year 2019 2020	Ofwat
C-Mex Pilot For PR19	Allto
D-Mex Pilot For PR19	Allto

² Incentive design decisions, for the 2020-2025 period, will be informed by shadow year data gathered prior to publication of the PR19 Final Determinations.

2. Introduction

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.

2.1. Background

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. The combination of financial and reputational rewards and penalties, has helped to drive improved customer service in the sector.

However, there are limitations with the 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 the 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 July 2017³, we consulted on a set of mechanisms aimed at incentivising water companies to provide excellent customer service for residential customers and developer services customers. Following further development through separate working groups, which included relevant stakeholders in the industry, we outlined our decision in the PR19 final methodology in December 2017 to replace the SIM with two new incentive mechanisms:

³ Delivering Water 2020: consultation on PR19 methodology - July 2017
<https://www.ofwat.gov.uk/wp-content/uploads/2017/07/Delivering-Water-2020-Consulting-on-our-PR19-draft-methodology-2.pdf>

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

2.2. C-MeX in our PR19 final methodology

The key features of C-MeX, as set out in our December 2017 PR19 final methodology document are outlined below.

In the PR19 final methodology, we said that C-MeX will be a single score based on combined results of 2 surveys:

- a satisfaction survey of those residential customers who contact their water company (**customer service survey**) - a customer service satisfaction survey of customers who have contacted their companies – to incentivise companies to improve their handling of customer contacts and complaints; and
- a **customer experience survey** covering a random selection of residential customers ie not just those who contacted their company - to incentivise companies to improve the overall customer experience for all their customers, for example in relation to street works, and not just those who have made direct contact with their companies.

We also said that we would decide whether it would be appropriate to include the Net Promoter Score (NPS) in some form in C-MeX as part of the financial or reputational incentive, after the C-MeX pilot.

Water companies will be ranked annually based on their C-MeX scores. The top three performers will receive a performance payment of up to 1.2% of residential retail revenues annually, which adds up to 6% of residential retail revenues over the five years of the control period. The poorest performers will receive an underperformance payment of up to 2.4% of residential revenues annually (up to 12% over the five years of the control period). In order to drive up customer satisfaction amongst the top performing companies a higher performance payment of up to 2.4% of residential retail revenue each year will be available providing a company:

- at least equal to upper quartile performance in wider economy (as measured by cross-sector threshold);
- demonstrates satisfactory complaints performance (definition of satisfactory to be determined); and
- is one of the top 3 companies by C-MeX score.

Companies will need to offer at least 5 communication channels for receiving contacts and complaints. A negative adjustment to the C-MeX score (definition to be determined) will apply if this is not realised. C-MeX financial incentives will be applied on an annual basis.

We proposed to make final decisions on the design of C-MeX after the pilot of the incentive. Decisions not covered in the PR19 final methodology included:

- whether NPS should form part of the financial incentive;
- the weightings of the customer service and customer experience surveys within the C-MeX calculation;
- the most appropriate source of data for the cross-sector threshold in C-MeX; and
- how to adapt C-MeX, if necessary, based on the results of the C-MeX pilot.

2.3. Our engagement process

2.3.1. Allto Consulting

The proposed C-MeX methodology was tested during the C-MeX pilot, conducted by Allto Consulting (Allto), during 2018-19. Allto is a market research consultancy, appointed to provide advice and make recommendations to us on the research methodologies for C-MeX and D-MeX. We have carefully considered Allto's recommendations and the stakeholder feedback from the C-MeX working group and the C-MeX sub-group when making our final policy decisions.

2.3.2. The C-MeX working group

We formed a C-MeX working group to aid the design and implementation of C-MeX and facilitate the development of the pilot. To date, the C-MeX working group's tasks have included providing views on the details of the methodology and helping to resolve implementation issues, such as data provision.

The **C-MeX working group** is made up from representatives from:

- all the regulated water companies;
- CCWater; and
- Water UK.

2.3.3. C-MeX sub-group

In response to discussions with stakeholders, a sub-group of the C-MeX working group was set up, as a means of discussing some of the detailed, working level C-MeX implementation issues.

The **C-MeX sub-group** comprised representatives from:

- Thames Water;
- Affinity Water;
- Severn Trent Water;
- Wessex Water;
- United Utilities Water; and
- CCWater.

In coming to our policy decisions for the shadow year, we have carefully considered the findings and recommendations from Allto and all stakeholder representations, including those from the C-MeX working group and the C-MeX Sub-group meetings held during the pilot year. The dates of those meetings are set out in Annex 1 and a summary of the views provided by stakeholders are in Annex 2 of this document. Allto's C-MeX report is published alongside this document ([link in Section 1](#)).

2.4. Shadow year

We intend to run the surveys, in shadow form, from May 2019 – March 2020. For C-MeX and D-MeX, the purpose of the shadow year is to:

- give companies time to make any systems changes needed before the financial incentives are applied from April 2020 onwards; and
- allow us to monitor the operation of C-MeX (and D-MeX) incentives and make adjustments which we consider appropriate for the period 2020-2025.

In our PR19 final methodology, we outlined that companies' relative performance against the SIM in the period 2015-16 to 2018-19 would determine financial outperformance payments and underperformance payments. The SIM would not operate in 2019-20 and instead we would pilot C-Mex that year. The Customer Service survey part of C-MeX could proxy the qualitative part of the SIM, and the usual complaints data for the quantitative part of the SIM, which would enable companies to assess whether they had met their reputational incentives for the SIM in 2019-20. For this shadow year, no financial incentives will apply.

We will use the Customer Service element of C-MeX (excluding online interviews) as a proxy for the qualitative component of the SIM. We will use a proxy calculation, which is described in detail in the guidance document, to calculate the quantitative component of the SIM (link to C-MeX guidance document is in Section 1). We also note that some companies have reputational performance commitments on unwanted contacts. This is also detailed in the guidance document. For the avoidance of doubt, no companies will have a financial SIM incentive for 2019-20.

Recommendations from the C-MeX pilot and from information gathered in the shadow year testing, will inform our final decisions for how C-MeX will be run in 2020-2025 period and will be reflected in PR19 Final Determinations in December 2019 and the Final C-MeX guidance, which we will publish by March 2020.

We will engage with stakeholders via the C-MeX working group and sub-group during the shadow year as and when necessary.

3. C-MeX pilot

3.1. Pilot background and objectives

Allto designed and ran a pilot of C-MeX to test and provide recommendations to us to refine the methodology. Both we and Allto have used the following success criteria, set out in the PR19 final methodology, to make decisions:

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

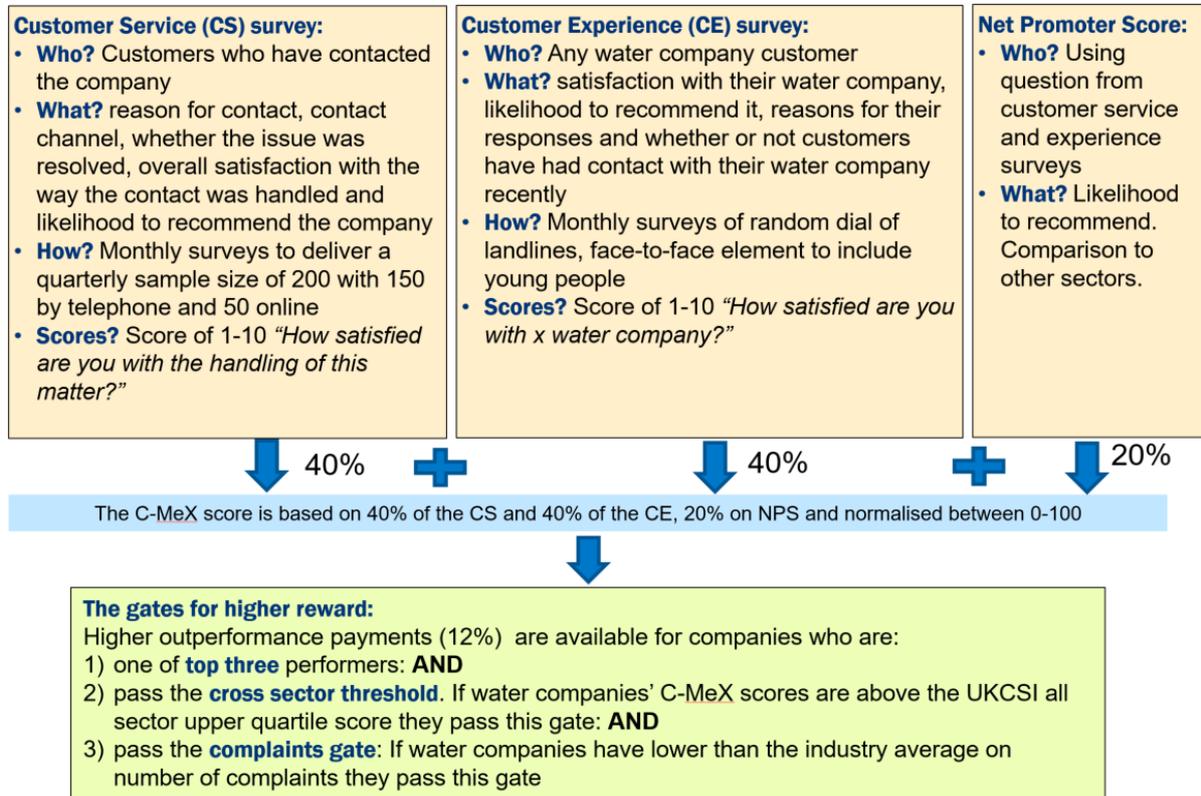
The overall objective of the pilot was to develop C-MeX to the point where it can be run in shadow form in 2019-20, and have financial incentives applied on an annual basis from April 2020 onwards. A further aim was to provide advice and make recommendations on some of the outstanding elements of the C-MeX design not covered by the decisions published in the PR19 final methodology. We have carefully considered the recommendations from the pilot when making our final policy decisions.

3.2. The pilot operation

The C-MeX pilot was conducted during 2018-19. The pilot phase involved designing and running two waves of customer surveys in which various approaches were trialled, to provide recommendations on the most appropriate survey design. More details on the pilot year and Allto's recommendations can be found in the Section 1.3 of the Allto report 'C-MeX pilot for PR19' (link to report is in Section 1).

4. Decisions on C-MeX shadow year methodology

The following graphic illustrates the 3 components of the C-MeX score:



As set out in the PR19 final methodology, the financial incentives for C-MeX will be up to 6% of residential retail revenues for high performing companies, with higher performance payments of up to 12% of residential retail revenues (over the five years of the control period) available to the best performing companies. See the graphic above for the list of the gates that companies have to pass to receive higher rewards.

There are no financial incentives for C-MeX performance during the shadow year. For the 2020-25 period, we will publish C-MeX data annually. This includes C-MeX scores and other information relevant to the scores. We will rank and publish each company's performance based on its C-MeX score each year.

The following sections outline the decisions made on each of the elements that make up C-MeX. These decisions were informed by findings and recommendations from the pilot conducted by Allto, as well as stakeholder views. These decisions will be applied to the C-MeX surveys during the shadow year. Please note that, where we

have not explicitly stated that an element of C-MeX will be tested in the shadow year, then this is likely to form part of final C-MeX policy, which we expect to publish in PR19 Final Determinations in December 2019.

4.1. Decisions common to customer service and customer experience surveys

4.1.1. Choice of Scale

Decision: We will adopt the 0-10 scale for both C-MeX surveys.

One of the issues with the SIM league tables is that scores for water companies tend to converge, making it difficult to differentiate between company performance and drive innovation. In particular, convergence in the SIM scores results in diminishing improvements at the upper end, which suggests that it is not effective at encouraging leading companies to improve on the customer service frontier.

In the pilot, Allto tested whether extending the range of scores customers can award for their satisfaction with their water company would provide greater discrimination between water companies. The pilot tested scoring scales of 1–5 and 0-10. On the 0-10 scale, Allto found that the increased differentiation means that customers have the ability to express a very high level of satisfaction (with a score of 9-10) but can also give a score that indicates a high level of satisfaction that is lower. This can explain the significantly higher proportion of respondents providing ‘fairly satisfied’ equivalent responses than for the 1-5 scale in the pilot. This suggests that the 0-10 scale should be more discriminating between water companies and give more of a spread of results than seen in the SIM when using a 5 point scale. In line with Allto’s recommendation, we will adopt the 0-10 scale for C-MeX. Adopting the 0–10 scale will encourage companies to improve customer experiences and innovate which is one of our success criteria.

4.1.2. Sample size

Decision: The appropriate sample size for both surveys is 200 interviews per company per quarter.

The SIM had an annual sample size of 800 interviews (3,200 for the four year period of the incentive), which gives a confidence interval (degree of potential error) of +/- 1.7%. Since C-MeX is an annual incentive the sample size annually is 1,600 interviews, which is a confidence interval of +/- 1.9%. An equivalent confidence interval to the SIM would be 300 interviews per survey per quarter or 2,400 annual interviews. Additional interviews add significantly to the cost of running C-MeX and provide only a small change in confidence interval. It is also worth noting that the total financial incentives that were associated with the SIM and cover the whole price control period are the same as the total financial incentive associated with C-MeX for the whole price control period. However, since C-MeX is an annual incentive, the financial incentive that applies annually is much lower.

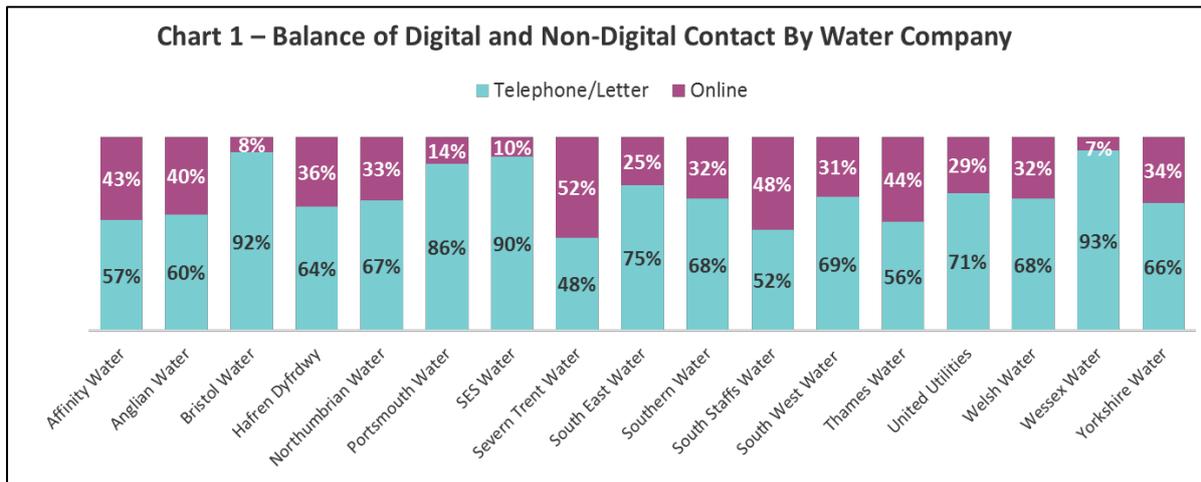
We have weighed the costs and benefits of particular sample sizes for the C-MeX surveys and have decided that a sample size of 200 interviews per company per quarter is appropriate for both the Customer Service and Customer Experience surveys. This sample size is in line with the recommendation made by Allto following the C-MeX pilot. This approach offers an appropriate balance of costs and benefits, since it delivers robust results at a reasonable cost on an annual basis, including an appropriate sample size for each contact type, to the benefit of customers. As such, we consider this approach is proportionate, practical and will also satisfy the “measuring performance across companies consistently, reliably and fairly” success criteria. For how the composition of the 200 interviews per quarter will, refer to Section 3.3.1 for Customer Service Survey and Section 3.4.1 for Customer Experience Survey.

4.2. Customer service survey

4.2.1. Survey channels and sample

Decision: C-MeX customer service survey will consist of 200 customer service interviews comprised of 150 telephone interviews and 50 online interviews. The SMS survey approach will not be adopted as a method of data collection.

In line with the recommendation from Allto following the C-MeX pilot, we will use a mixed methodology approach to the Customer Service survey. This means using telephone interviewing for customers contacting their water company by non-digital means and an online survey for those contacting their water company by digital means. We have decided not to continue with survey by SMS for reasons given below. We consider that we need to use telephone interviews for those who contacted their water company by non-digital means (given that the majority of contacts with all water companies but one are through non-digital channels and these customers may not have access to, or be reluctant to use digital channels to respond), whilst allowing for the fact that digital contact now forms a considerable and growing proportion of most companies' contacts (see Chart 1)⁴. This trend towards more digital contact may continue and we might expect this to impact our approach to the surveys.



As seen during the pilot, online survey response rates are low (c. 3-4%), which means that a large number of survey invitations need to be emailed out to achieve robust numbers of interviews. It is worth noting that online interviews are relatively

⁴Source: C-MeX Pilot For PR19 by Allto

low cost (assuming no coding of open-ended questions into themes) and therefore an online survey provides a cost-effective method of substantially increasing annual sample sizes. Allto proposed that all water companies, on current volumes, should be able to achieve a minimum of 50 online interviews to replace 50 telephone interviews per quarter, but some would not be able to achieve many more than this. The remaining 150 interviews of the 200 survey sample per quarter per company would be done by telephone survey. In the case where the company receives more than the minimum 50 online interview responses per quarter, these supplemental responses will be included in the survey sample in addition to the 200 required interviews. This will lead to the company reporting a survey sample size of more than 200 interviews per quarter.

Therefore we consider that 150 telephone interviews and 50 online interviews provides a good balance between cost and robustness as well as our aim to reflect the expansion of the channels by which customers are comfortable contacting and being contacted by their water company. This decision is in line with the recommendation from Allto following the C-MeX pilot. It is proportionate, practical to implement and will reflect customer behaviour changes and market changes. Some of our success criteria. Any weighting that is applied to the results of these interviews and is discussed further below.

4.2.2. Reasons for not pursuing SMS survey methodology

As per the Allto recommendation following the C-MeX pilot, the SMS survey approach will not be adopted as a method of data collection for C-MeX going forward for a number of reasons:

- the survey has to be very short for respondents to be willing to take part/complete the survey. This is a key disadvantage;
- it can only be sent out to those customers for whom the water company holds a mobile number – this varies by water company from 53% to 79% of contactors, averaging 66%. If this was the only interviewing methodology, on average a third of contactors could not be surveyed (ie customers with a landline only), potentially resulting in a biased sample;
- there has to be an assumption that customers are thinking about the correct occasion on which they contacted the water company in providing responses- unlike telephone or online interviewing, there is no opportunity to collect the reason for contact the customer is thinking about; and
- the response rate is much lower than telephone interviewing (5.0% versus 13.4%), and like the online survey, results are significantly less positive than telephone results due to the self-selecting nature of the method.

This decision will satisfy the “simple and meaningful for customers” success criteria.

4.2.3. Online survey correction factor

Decision: We will be applying an upward correction factor of 5% to the online results. We will test this in the shadow year

During the pilot studies, Allto found that the results from the online surveys were significantly less positive than the results from phone interviews. The rationale given was that online response rates were substantially lower than for telephone surveys. This can give rise to sampling bias since customers with strong negative feelings are more likely to respond than those who are ambivalent. Allto therefore suggested that the online survey may be less representative of the population than the telephone survey. This might mean that companies with higher proportions of digital contact (and therefore higher numbers of online surveys than the minimum 50 expected) will be penalised in their C-MeX scores versus those with lower proportions

At the December C-MeX working group Workshop, one water company offered the use of its own telephone survey tracking data with digital contactors as a comparison to its C-MeX online survey results, in order to validate this figure. The evidence corroborated Allto’s findings. Allto found that telephone results amongst digital contactors were 5.9% better than online results and the water company found that telephone results amongst digital contactors were 4.3% better than online results.

Our decision is to apply an upward correction factor of 5% to the online results in the shadow year, but to test this in the shadow year as this will inform our final decision on the methodology. This decision will ensure that we are measuring performance across companies consistently, reliably and fairly which is one of our success criteria.

4.2.4. Sample accuracy

Decision: We will monitor sample accuracy during the shadow year

Allto found that sample accuracy of digital contact details (ie e-mail addresses) tended to be worse than sample accuracy of non-digital contact details (ie phone numbers, home addresses).

As highlighted by Allto, following the C-MeX pilot, accurate contact details are important to maximise the representativeness of customer samples provided by water companies. Companies must aim to capture customer telephone numbers and e-mail addresses for all contact made to ensure results are a fair reflection of the entirety of their samples.

To address this issue, we will monitor sample accuracy during the shadow year. If we consider this remains a problem after the shadow year then we will take action to address this issue within the price control period.

This decision will ensure that we are measuring performance across companies consistently, reliably and fairly, one of our success criteria.

4.2.5. Survey frequency

Decision: The Customer Service Survey will be conducted monthly.

Based on the recommendations made by Allto following the C-MeX pilot, the Customer Service Survey will be conducted monthly, where a random 'C-MeX Sampling Week' will be selected in advance. Water companies will then be notified by 10am on the Monday following the C-MeX Sampling Week that they will be required to provide all records of customers contacting the company in that week to the appointed agent by the end of the following day (ie 5pm on the Tuesday).

This approach will help to ensure water companies provide consistent good service, and hence improve the customer experience one of our success criteria. This is because they will be surveyed one week in every four and any of those four weeks could be the sampling week. Moreover, it will mitigate against one-off events (eg sewer flooding or hosepipe bans) which are less likely to skew survey results for a particular company or companies if sampling is spread over 3 weeks in the quarter (or 6 for the smaller Water Only Companies (WOCs)) rather than 1 week as at present for the SIM.

We expect that all interviews should be completed within 2 weeks of the customer contacting their water company, to ensure the customer is able to recall the details of the contact.

4.2.6. Weighting of results

Decision: We will apply a 50% billing/50% operations weighting for C-MeX Customer Service survey results. We will also weight the results of the interviews by contact channel in the original sample.

Weighting by what contact was regarding

Under the SIM, results are weighted to 50% billing, 50% operations (25% clean water and 25% waste water for Water and Sewerage Companies (WASCs)); and 50% billing, 50% operations for WOCs. Most customers contact their water company about billing but we agree with Allto's view that to weight billing higher than operations would risk reducing company focus on customer service relating to operational issues relative to billing issues. Therefore, we have decided to retain the approach used in the SIM of a 50% billing/50% operations weighting for C-MeX so that companies focus on providing excellent customer service in both business areas equally.

Weighting by Contact Channel

For the Customer Service survey, both online and telephone interviews will be used. The number of interviews achieved by each channel is likely to be different to the proportion in which customers have contacted that company. Allto has proposed that weighting results of the interviews achieved, based on the relative proportions of online and telephone/written contact within the samples sent by each company so that results for each water company are representative of how their customers have contacted them. We agree with Allto that within the different categories of billing and operations weighting results by contact channel is reasonable.

Example of weighting

An example of how the weighting works is provided by Allto and shown here. If a company provides a sample composed of 72% online customer contacts and 28% telephone for its billing function and achieves 150 online interviews and 100 telephone interviews (ie a 60%/40% split of online and telephone interviews), we would weight online up so that it accounts for 72% of the overall company satisfaction score for billing (ie 180 interviews) and weight telephone down so that it represents 28% of the overall company satisfaction score for billing (ie 70 interviews). The same would be done within the sample provided for the operations function. Then overall billing, and operations results will be weighted according to the

desired proportions (50%/50% in our policy) in the final sample. This is shown in the table below:

	Achieved no. interviews	Achieved % of interviews	Required % of interviews*	Weighted no. interviews	Final weighting**
Billing					
Online	150	60%	72%	180	137
Telephone	100	40%	28%	70	53
Total	250	100%	100%	250	190
Operations					
Online	30	23%	5%	7	10
Telephone	100	77%	95%	123	180
Total	130	100%	100%	130	190

* From provided sample

** 50% billing, 50% operations weighting

Our approach to weighting will ensure that companies are incentivised to improve customer experience, is proportionate and practical to implement which are some of our success criteria.

4.2.7. Reallocation of interviews by reason for contact

Decision: We will check that the survey respondents are fully aware of the company and issue they are discussing and are providing accurate responses to the surveys

To ensure respondents were talking about the correct contact, a check was built into the Customer Service telephone survey questionnaire in the pilot phase such that if a discrepancy arose, the customer was prompted with the reason given by the water company to see if they also had contact about this issue and if so, interviewed on that issue; otherwise they were interviewed about their claimed reason for contact. If respondents were clearly confused about who they spoke to and/or appeared to be talking about an organisation other than their water company, the interview was terminated.

In the case of the online survey, respondents were asked to record their reason for contact, then continued with the interview.

During the C-MeX pilot, 5% of interviews in Wave 1 and 4% in Wave 2 had a discrepancy between water company and respondent reason for contact. Following Wave 2 these were re-allocated to the contact type provided by the respondent on completion of interviewing to ensure more accurate reporting. We agree with the methodology applied in the C-MeX pilot study by Allto and consider it appropriate to apply this approach. This approach will satisfy the “measuring performance across companies consistently, reliably and fairly” and success criteria.

4.2.8. Company “Do not contact” customers

Decision: In the shadow year companies can exclude from the samples they provide those customers who have told their companies that they do not want to be contacted for marketing or other purposes (Company DNCs). Companies must provide the number of Company DNCs excluded from the samples provided and the reasons for any exclusions. Ofwat currently intends to include Company DNCs in the 2020-2025 period. (See guidance document for more details on Company DNCs and other permitted exclusions)

4.2.9. Hafren Dyfrdwy (HDD)

Hafren Dyfrdwy became a new WASC in July 2018, prior to the Wave 2 pilot survey. Although initial customer contacts to Hafren Dyfrdwy on waste water issues were around 900 customer contacts, this later dropped to only 7 customer contacts per week for subsequent weeks. This sample size is insufficiently robust to treat Hafren Dyfrdwy in the same way as other WASCs.

As recommended by Allto, following the C-MeX pilot, we have taken a practical and proportionate approach to this matter and made a decision to combine the waste results for Severn Trent Water and Hafren Dyfrdwy to produce one waste water score for both companies, given that Severn Trent Water has an outsourced model and the same provider services both Severn Trent Water and Hafren Dyfrdwy waste water customers.

4.3. Customer experience survey

4.3.1. Survey channels and sampling

Consistent with the recommendations from Allto following the C-MeX pilot, we will adopt a predominantly telephone-based survey using a Random Digit Dial (RDD) sampling approach to achieve a broadly representative sample, supplemented by targeted electoral roll sampling and face-to-face interviews to ensure sufficient interviews are achieved with younger age-groups. As the Customer Experience survey uses RDD we need to ask the respondent questions about a water company who supplies them. If the same company provides both water and waste services then there is no problem. However, if a customer has two suppliers they need to answer about one of these only. To ensure sufficient interviews are achieved with water only companies we ask about the company that supplies their clean water.

The survey will consist of 200 interviews as discussed above.

There will be an equal number of face-to-face interviews carried out for each water company amongst 18-44 year olds, representing 20% of all interviews (ie 40 interviews, 30 with 18-29s and 10 with 30-44s. This will ensure fairness across water companies. Interviews will be carried out in 2 locations for each water company each quarter and interviewing locations will be rotated across the water company region.

In the pilot, if a respondent was not aware of their water company, they were prompted with the water company it was understood they were supplied by, based on the water company flag attached by our sample provider. However, there were concerns within the industry regarding the accuracy of these flags. It is therefore necessary to ask respondents who do not know their provider for their postcode and identify their water provider using the Water UK postcode checker or a similar database to ensure we are prompting about their actual water company. If they are in any doubt the interview should not proceed.

Each water company must supply the appointed agent with full postcode information for all clean water customers on an annual basis.

As for the pilot, all water service users aged 18+ will be eligible to take part in the survey, providing they are aware of their water company either spontaneously or on prompting; respondents do not have to be the bill payer.

Quotas will be set on gender and age (18-29, 30-59, 60+) to be reflective of each company's demographic profile based on 2011 Census data for the local authorities

served by each water company. We will consider in the shadow year whether more age bands would give more representative results. No other quotas are considered necessary.

This approach will satisfy the “measuring performance across companies consistently, reliably and fairly” success criteria.

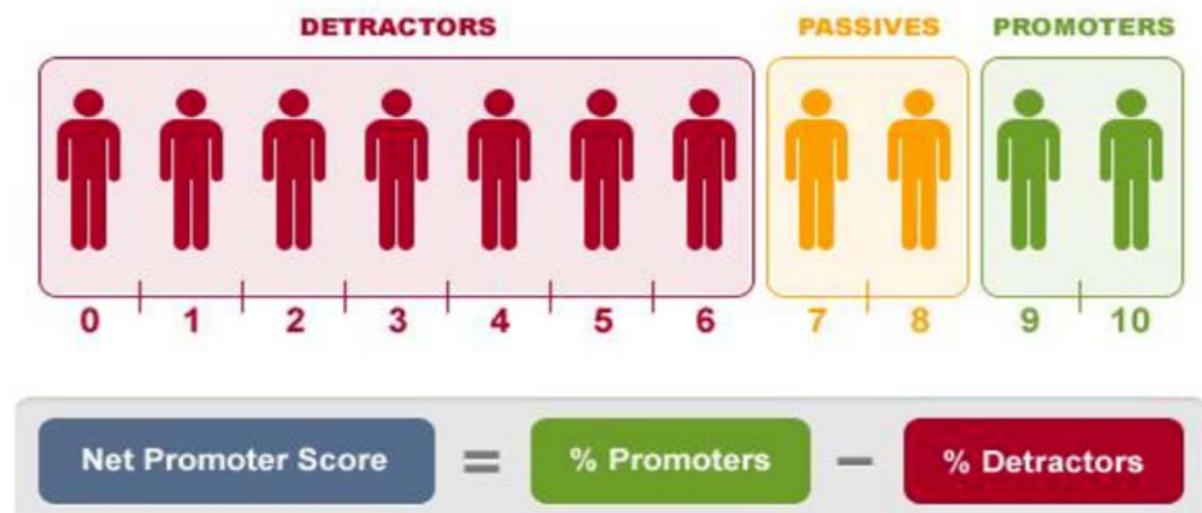
4.3.2. Survey frequency

As sampling is carried out independently of water companies, the interviewing on the Customer Experience survey will be carried out continuously over the quarter. This is in line with the recommendation from Allto, following the C-MeX pilot. This should provide an incentive for companies to provide good customer service consistently and also mitigates against one-off events which otherwise might skew results. Results would be reported quarterly.

4.4. Net Promoter Score

Decision: We will include NPS as part of the C-MeX score calculation.

Net Promoter Score (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 classified as Promoters, Detractors or Passives.



As part of the C-MeX pilot, we tested the use of NPS. Including NPS in the C-MeX score makes C-MeX more stretching by providing some form of cross sector comparison for companies. Although the pilot found that the NPS question was understood less well by customers than the customer satisfaction question, many of these due to customers being unable to change their water company, we consider that hypothetical questions such as this can be useful.

Measures, such as NPS, are frequently employed in regulatory frameworks to stimulate competition. For example, the National Health Service (NHS) has been using the Friends and Family Test (a form of NPS) since April 2013 to stimulate local improvement and customer service quality based on patient feedback. Furthermore, since August 2018, the Competition and Markets Authority (CMA) has required banks to publish their NPS scores, to drive up competition between banks, so leading to a better overall quality of service for those who use them.⁵

NPS provides a comparison of customer service experience between companies. NPS is already adopted in a number of UK industries, including by a number of water companies, allowing comparison between the future NPS scores of water companies with those from other organisations and sectors (if publicly available). There was also fairly high volatility of NPS scores between the two waves of testing in the pilot year but this did not lead to volatility in the C-MeX scores.

Allto considered that, on balance, the costs of including NPS in the C-MEX score outweighed the benefits. This is because Allto considers that although adding NPS into the calculation would certainly increase the stretch for companies, the fact it is measuring a very similar thing to customer satisfaction brings into question whether the inclusion of NPS is enhancing C-MeX or making it unnecessarily complicated.

We have weighed up the costs and benefits of including NPS in C-MeX and consider that this is a finely balanced matter. However, we have decided to include this measure as part of the C-MeX calculation since we do not see any significant downsides as we do not consider including it in C-MeX makes the incentive too complex. We agree that NPS is a more demanding test for companies than customer satisfaction (overall scores are lower) and is considered a strong comparative tool with results that are easy to understand. Therefore, we consider it has the potential to encourage companies to improve customer experiences and is practical to implement.

⁵ Source: Net Promoter System, <http://www.netpromotersystem.com/about/companies-using-nps.aspx>

NPS will be further tested during the shadow year, where we will monitor the volatility of the measure and how it is understood by customers.

4.5. Calculating the C-MeX score

Decision: C-MeX will be calculated using the following formula:

C-MeX score = (40% Customer Service CSAT) + (40% Customer Experience CSAT) + (20% combined Customer Service and Customer Experience NPS)

In the PR19 final methodology, we stated that C-MeX would be retained as a 'single, but composite measure' of the Customer Service and Customer Experience surveys. One of the purposes of the pilot was to help us to determine what weightings should be applied to the components of C-MeX within the composite C-MeX score and also on which survey questions the financial incentive should be based (ie customer satisfaction only or customer satisfaction and NPS). Following the pilot, we have decided that C-MeX score will be a composition based on 40%/40% weighting of Customer Service (CS) & Customer Experience (CX) surveys using the results of the question on customer satisfaction (CSAT) and 20% weighting of NPS. This gives equal significance to the Customer Service and Customer Experience surveys and hence the experience of those who have contacted their water company and those who have not. It also includes the cross sector measure NPS for the reasons given above.

4.5.1. Adjustments to the C-MeX score

Decision: We will apply a three point downward adjustment to a C-MeX score if the company does not offer at least five channels, including at least three online channels, to receive customer contacts and complaints

As we stated in the PR19 final methodology, companies should offer at least five channels, including at least three online channels, to receive customer contacts and complaints. We would apply a downwards adjustment to a company's C-MeX score if it does not adhere to our requirement. We have decided that a 3 point reduction to a company's final C-MeX score should be applied in-period if it does not offer five channels.

We recognise that this penalty does not account for the scale of a failure (eg having three communications channels down is worse than one), and the fact that a company which has already failed on one channel has limited incentive to provide the others. However, we consider that this approach is simple, proportionate, and

transparent, and provides a strong incentive for companies to comply with the minimum threshold of channels offered for receiving customer contacts and complaints.

This approach will satisfy the “encouraging companies to improve customer experience and innovation” success criteria.

4.6. Applying financial incentives

In contrast to the SIM, which was an end of period incentive, C-MeX is an in-period incentive and we are planning to decide in advance how we will calculate performance payments and penalties. Our decision is that this will be based on how far companies are from average performance, or in technical terms, how many standard deviations (SD) companies are above or below the mean. These are the thresholds between the different levels of rewards and penalties:

SD away from mean	payment/penalty
Above 1SD	Payment of 6% at least
+1 SD between +0.25 SD	payment is rank * 3%
Mean	no payment/penalty
-0.25 SD between -1 SD	penalty is rank * 6%
Below -1SD	Penalty of 12% at least

The following worked example, based on data from the pilot, illustrates how the different thresholds will determine which companies would receive a performance payment or penalty based on the SD score of each company.

	Score	SD	Type	Rate	
1	84.4	1.5	Highest payment	+6.0	Highest payment for companies above 1SD above the mean
2	83.4	1.2	Highest payment	+6.0	
3	83.2	1.1	Highest payment	+6.0	
4	83.0	1.1	Highest payment	+6.0	
5	82.7	1.0	Payment	+2.9	Companies between 1 and 0.25 SD above the mean: $SD\ score \times 3\% = payment$
6	81.1	0.5	Payment	+1.4	
7	80.8	0.4	Payment	+1.2	
8	79.8	0.1	None	0.0	Companies between 0 and ± 0.25 receive no payment/penalty
9	79.7	0.0	None	0.0	
10	79.4	-0.1	None	0.0	
11	79.3	-0.1	None	0.0	
12	78.3	-0.4	Penalty	-2.4	Companies between -0.25 and -1 below the mean: $SD\ score \times 6\% = penalty$
13	77.2	-0.7	Penalty	-4.5	
14	76.2	-1.1	Highest penalty	-12.0	Highest penalty for companies 1SD below the mean
15	75.5	-1.3	Highest penalty	-12.0	
16	75.1	-1.4	Highest penalty	-12.0	
17	74.1	-1.7	Highest penalty	-12.0	

In this example, all rates are totals for the price control period. In practice, as C-MeX is reconciled each year, all the rates need to be divided by 5. So the maximum penalties each year are $(12/5) = 2.4\%$ of residential retail revenues.

Those in the amber category receive payments/penalties based on their score, using these formulae:

- $SD\ score \times 3\% \text{ residential retail revenues} = \text{payment}$
- $SD\ score \times 6\% \text{ residential retail revenues} = \text{penalty}$

Companies in green automatically receive the highest payment (+6%) and companies in red the highest underperformance penalty (-12%), independent of their SD score. This is asymmetric and gives a higher potential for penalty than for payments. We consider that this approach is proportionate, practical to implement and will encourage companies to improve performance.

4.7. Higher performance payments

The PR19 final methodology states that the financial incentives for C-MeX will be up to 6% of residential retail revenues for high performing companies, with higher performance payments of up to 12% of residential retail revenues (over the five years of the control period) available to the best performing companies. The higher performance payments will only be available if the company meets all three of the following conditions:

4.7.1. The company performs at or above a threshold based on cross-sector performance:

Decision: We will use a cross sector threshold that is based on the UKCSI All Sector Upper Quartile results as a gate to higher performance payments.

UKCSI is a measure of customer satisfaction in the UK, run by the Institute of Customer Services. It is based on data from a six-monthly online survey of consumers in 13 sectors of the economy. The UKCSI All Sector Upper Quartile is the median of the upper half of a UKCSI data set.

UKCSI is the only readily available source of cross-sector data which includes an NPS element. This makes UKCSI the most appropriate and accessible data source for cross-sector customer satisfaction benchmarking. UKCSI is well established and used, for example, by Ofgem in its Broad Measure of Customer Satisfaction (BMCS) incentive. We are 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.

The methodology for the UKCSI is based only on customers who have contacted their company, which is different to the approach to the customer experience survey in C-MeX. Therefore, even though we can apply a scaling formula to compare scores across the two surveys in a consistent way, this does not necessarily mean that a company that passes this threshold would actually be upper quartile in the UKCSI. To calculate what the threshold will be we will convert the UKCSI index upper quartile all-sector performance to a C-MeX equivalent. This is consistent with Allto's recommendation. We will use the formula:

$$\text{C-MeX ASUQ} = \text{C-MeX Mean} + (\text{UKCSI ASUQ} - \text{UKCSI Mean}) / \text{UKCSI SD} * \text{C-MeX SD}.$$

We plan to update this threshold annually when reconciling the in-period C-MeX incentive⁶.

⁶ This method relies on using data associated with the water companies appearing in any UKCSI dataset, which in turn is contingent upon customers choosing to rate those

Using this upper quartile cross sector threshold as a gate to higher performance payments will ensure higher performance payments are only available for truly stretching levels of performance. We consider that this will encourage companies to improve customer experiences and innovate.

4.7.2. The company is demonstrating satisfactory complaints performance:

Decision: the complaints gate will have a threshold of the industry average complaints based on the total number of complaints for each company.

In PR14, 25% of a company's SIM score is based on the volume of written complaints and unwanted telephone contacts made by customers. This approach has a number of issues:

- **incentivising the correct behaviour:** some company activities such as water efficiency schemes or pursuing bad debt can generate complaints or contacts and the adverse impact on the SIM can discourage companies from carrying them out. It could provide an incentive for companies to make it hard for customers to contact them;
- **focus only on written and unwanted phone complaints:** Measuring these direct complaints is increasingly less relevant in the social media era where customer can use less direct means to complain
- **focus on customer service:** great customer service is more than just a focus on complaints.

In the PR19 final methodology, we outlined that we had decided to exclude the quantitative element of complaints from C-MeX and include complaints through a complaints gate to access higher performance payments. In addition, a company's C-MeX score reflects the quality of how it has handled complaints since 40% of a company's C-MeX will be based on surveying customers who have

companies. Therefore there is no guarantee of the number of relevant data points that will be available in any given UKCSI survey wave and if no water companies appeared in any given wave we would need to use the latest set of data available. Currently 14 of the 17 water companies were rated.

contacted/complained to their company and assessing the customer service they received.

In PR19 we have also challenged how effective water companies are at dealing with complaints in particular when complaints are escalated. Our Initial Assessment of Business plans (IAP) assesses company performance in managing complaints and what they have learned from handling complaints. Where companies fall short, we are requiring them to develop and implement comprehensive action plans to improve their customer complaints handling – and ensure that they continually improve. These companies will be expected to demonstrate how they will monitor their ongoing performance and how they will continuously identify lessons and measures to achieve best practice. Where our concerns are substantial we will review these action plans and provide feedback to companies.

Our next steps will depend on how well the companies have responded to the actions set. We are considering the level of ongoing monitoring that would be necessary. At PR19 Final Determinations, where we have specific deliverability concerns, we may consider additional outcome performance commitments to be necessary. We may also impose further reporting requirements so that we can monitor delivery where we have concerns.

Outcome delivery incentives (ODIs) encourage companies to improve their service performance and this should have a beneficial effect on customer complaints. ODIs are usually focused on low probability/high impact disruption to service eg supply interruptions, sewer flooding. These mean that companies are directly incentivised to address performance issues which have significant customer impact. Improving performance on the service performance commitments should lead to fewer complaints, though complaints do cover a wider set of issues eg billing.

In addition, CCWater, the statutory consumer body for the water industry in England and Wales measures the number of complaints received by water companies. Consumers can also make complaints about water companies to CCWater. CCWater set a target in its 2016 annual report for 95% of written complaints to be resolved on initial contact by 2020. Five of the 17 companies still have a way to go to meet the CCWater's target, and to reduce the overall number of complaints. We will work with CCWater in the shadow year to monitor company performance on complaints.

Our decision is for a company to achieve satisfactory performance on complaints (and therefore pass the complaints gate) the company will have below the industry average number of complaints. To calculate the industry average complaints we will use the number of complaints (as measured by CCWater) that each company

received per 10,000 connections. Our view is that an industry average complaints gate does not reduce the incentives for high performance across other factors whilst ensuring that no company receives higher rewards unless they have relatively satisfactory performance on complaints. We also considered applying the complaints gate to all companies eligible for outperformance payment but consider this goes against the rationale for excluding complaints from the C-MeX score in the first place. We consider that this will encourage companies to improve customer experiences and innovate.

We will monitor complaints throughout the shadow year prior to making any final decisions for the 2020-2025 period.

4.7.3. The company is one of the top three companies by highest C-MeX score:

As set out in the PR19 final methodology, higher performance payments are for those companies who are really pushing boundaries and pushing the industry forward. This is unlikely to apply to a majority of companies. Therefore, we are capping the number of higher performance payments (between 6% and 12% of allowed residential retail revenues) to three companies per annum.

4.8. Publication of data

The companies' survey scores will be reported to them in a league table on a quarterly basis, so they know during the year how they are performing against peers. The C-MeX scores will be published annually. Between 2020 and 2025, financial performance payments or penalties will be calculated annually like other in-period Outcome Delivery Incentives.

5. Next steps

5.1. Outstanding issues to be investigated in shadow year

Our decisions for the design of C-MeX in the shadow year are set out above. The final design decisions to apply to the 2020-25 period will be informed by findings in the shadow year.

As noted above, the following issues will be further investigated during the shadow year:

C-MeX

- The inclusion of NPS as part of the C-MeX score
- The level of customer understanding of the NPS question
- We will also monitor company performance in relation to complaints.

Customer Service Survey

- The quality of samples supplied by water companies in terms of accurate contact details (particularly email addresses)
- The exact correction factor to be used for online survey results
- The rate at which digital contact is replacing non-digital contact

Customer Experience Survey

- The effectiveness of postcode verification of customers
- Whether more age bands would give more representative results

5.2. Our timetable

For those methodological matters which are unlikely to be the subject of, or altered by, shadow year monitoring or consultation, we intend to set out our position in slow-track company draft determinations. The C-Mex decisions for 2020-25 period will be set out in company final determinations.

The table below shows our plans for the lead up to the PR19 price control period.

Dates	Topic
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March 2019	Publish shadow year guidance, pilot reports and policy decisions for the shadow year
May 2019	Shadow year starts*
May 2019 onwards	Monitoring in shadow year. ⁷ Mid-July – end of August: Minded to position on certain aspects and consultation on other C-MeX incentive design issues as part of draft determinations process
11 December 2019	Final incentive design for 2020-2025 published as part of PR19 Final Determinations
March 2020	Publish C-MeX guidance for the 2020-25 period
1 April 2020	C-MeX commences

*Please note that the shadow year will run from May 2019 until March 2020. This is to ensure sufficient time for us to appoint a contractor to run the shadow year, following the publication of the suite of documents related to the shadow year for C-MeX and D-MeX.

⁷ Incentive design decisions, for the 2020-2025 period, will be informed by shadow year data gathered prior to publication of the PR19 Final Determinations.

Annex 1 Schedule of 2017-2019 working group meetings for C-MeX & D-MeX

Below is a list of the C-MeX and D-MeX working group meetings held between 2017 and 2019.

Meeting	Date	Location
C-MeX		
Full working group 1	07/09/17	Bath – WSX offices
Full working group 2	03/10/17	Ofwat
Full working group 3	23/03/18	Ofwat
Full working group 4	30/07/18	Ofwat
Sub-group 1	24/05/18	Telecon
Sub-group 2	14/06/18	Telecon
Sub-group 3	05/07/18	Telecon
Sub-group 4	23/07/18	Telecon
Sub-group 5	25/09/18	Ofwat
Sub-group 6	23/10/18	Ofwat
Sub-group 7	21/11/18	Ofwat
Full working group 5	3/12/18	Ofwat
Sub-group: Shadow year guidance	19/02/19	Telecon
D-MeX		
Full working group 1	19/9/17	London – Water UK office
Full working group 2a	09/10/17	Ofwat
Full working group 2b	24/10/17	Ofwat
Full working group 3	22/03/18	Ofwat

Full working group 4	31/07/18	Ofwat
Sub-group 1	03/09/18	London - Water UK hosted
SLP Meeting - Wave 2 pilot	05/09/18	Offsite – FairWater Connections hosted
NAV meeting – Wave 2 pilot	13/09/18	Ofwat
IPG Meeting	20/09/18	Water UK hosting
Water UK developer day	15/09/18	Water UK hosting
Full working group 5	4/12/18	Ofwat
Sub-group: Shadow year guidance	19/02/19	Telecon

Annex 2 Stakeholder responses

The Annex to Allto's C-MeX report sets out how stakeholder comments received in relation to Allto's draft recommendations. These were discussed at the December 2018 C-MeX working group meeting.

We also received some responses from stakeholders on the draft C-MeX shadow year guidance that we developed in consultation with the C-MeX working group.

Following stakeholder feedback we have included further detail on the process of surveying customers, types of customers, including interactions with customers on social media and the treatment of unwanted interactions. We also confirmed that the process of excluding customers who provide an incorrect answer to knowing their company is retrospective.

Stakeholders also raised a concern with there being a small sample size if there's a weekly process for checking water company samples. We have outlined in the guidance that should this happen, the company will be asked for contacts from the previous two weeks.

We have covered these points and a number of aspects which required some clarification in the C-MeX guidance.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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