

PR24 outcomes working group
**Reviewing C-MeX and D-MeX for
the 2024 price review (PR24)**

7 March 2023



Agenda

	Time	Item	Locations
C-MeX	13.05	Introduction – allocating payments for C-MeX	Main room
	13:15	Breakout 1 – allocating payments (20 mins)	Breakouts
	13:35	Introduction to coverage of customer groups	Main room
	13:40	Breakout 2 – coverage of customer groups (15 mins)	Breakouts
	13:55	Any other items for noting	Main room (chat)
	13:56	BREAK	
D-MeX	14:05	Introduction – coverage and stretch of D-MeX	Main room
	14:15	Breakout 1 – coverage of customer groups (15 mins)	Breakouts
		Breakout 2 – quantitative metrics (15 mins)	Breakouts
	14:45	Group discussion – allocating payments for D-MeX	Main room
	14:59	Any other items for noting	Main room (chat)
	15:00	FINISH	

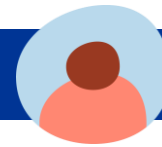




C-MeX

13:00 to 14:00

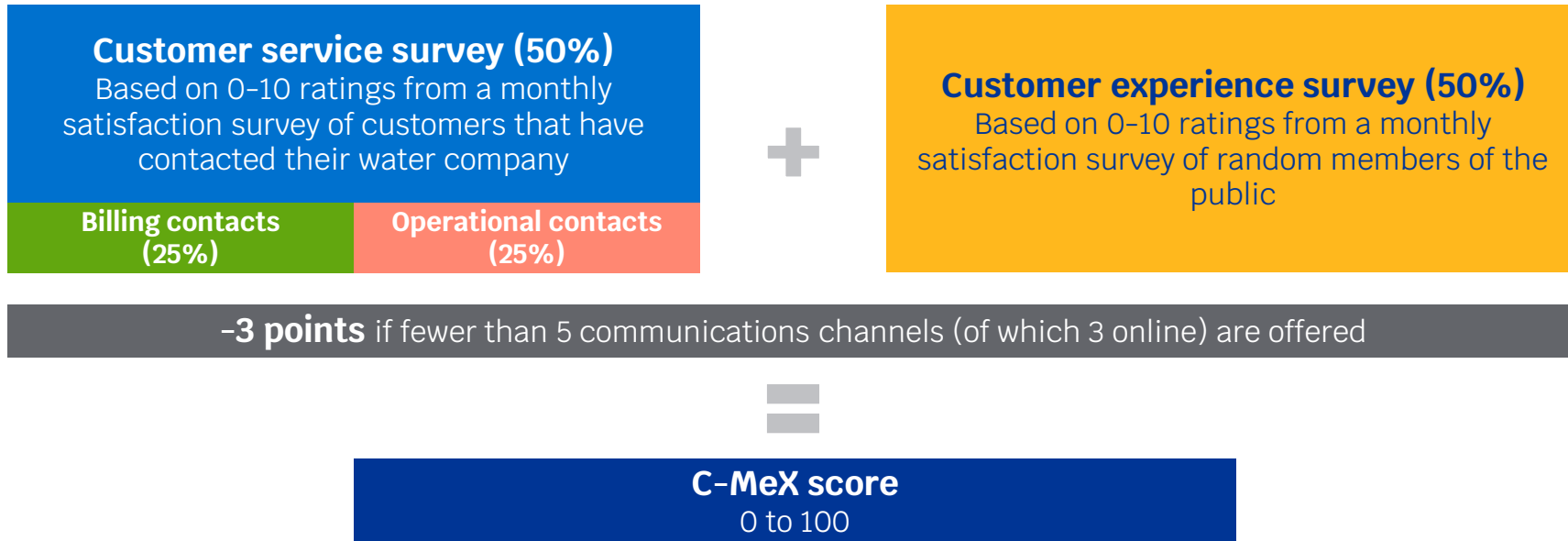
What is C-MeX? – the design



C-MeX is the **customer measure of experience**. It was first introduced at the 2019 price review (PR19), and came into effect in April 2020.

Currently, it applies to the largest water companies in England and Wales and is designed to incentivise them to improve the service they provide to residential customers.

Each company gets an annual score based on two satisfaction surveys and an adjustment:



We are reviewing its design and incentives for the 2024 price review (PR24), which will apply from April 2025 to March 2030.





1. Allocating payments for C-MeX

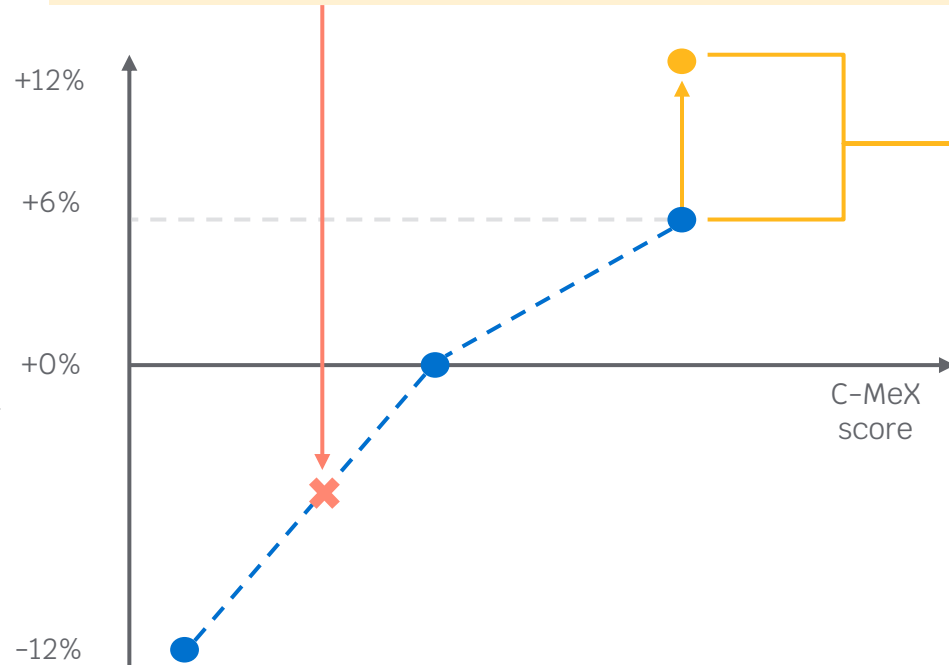
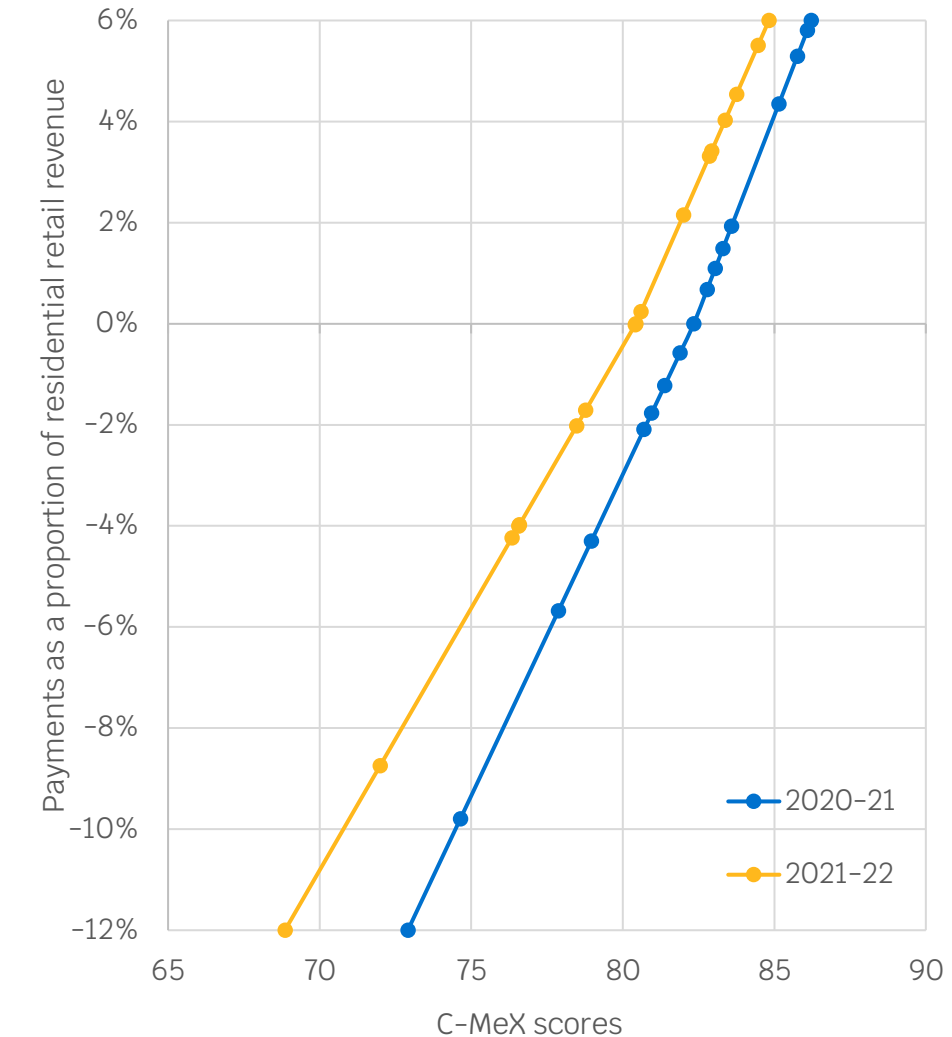
Allocating payments – current relative approach

Option 1

Companies' **payments are directly proportionate** to the 'distance' between their score and the top, bottom and median performers.

For example, if a company's score is 60, the middle score is 70 and the bottom performer is 50, then its revenue adjustment will be -6% (half way between 0% and -12%, since 60 is half way between 50 and 70).

C-MeX performance and payments in 2020-21 and 2021-22



The top-three performers in C-MeX **can receive higher payments** which can be up to double their standard payments if they:

- are a top-three performer in C-MeX;
- have below-average total complaints; and
- pass a cross-sector threshold which is based on the upper quartile of the UK Customer Satisfaction Index.

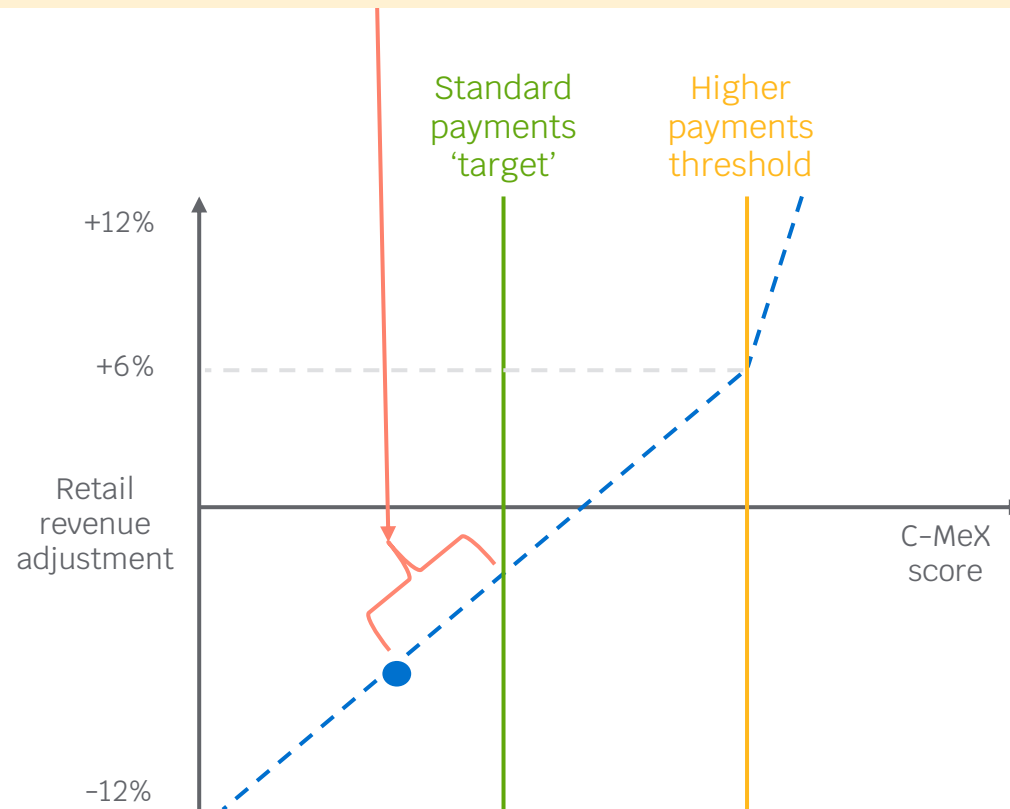


Allocating payments – absolute targets

Option 2

Standard payments for each company would be based on the **how far each company's score is from the target**. We could set the same target for all companies.

Incentive 'rates' could be based on customer research or a top-down approach.

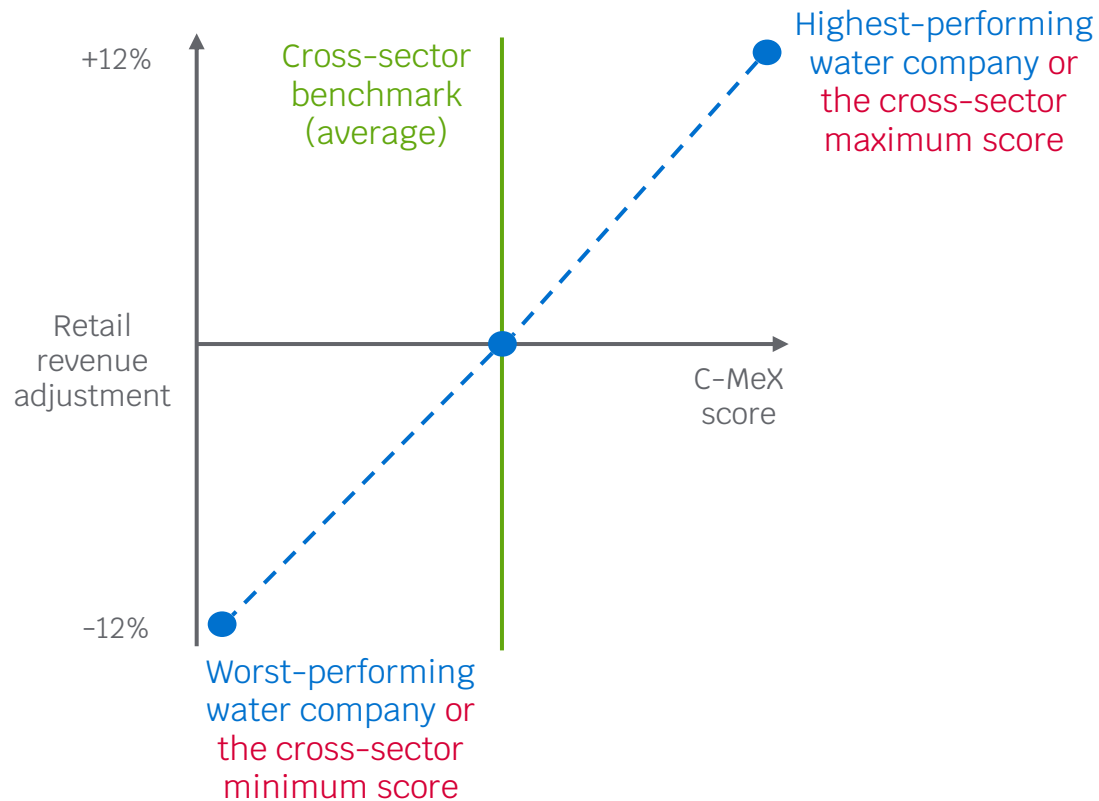


Higher payments could be **based on a cross-sector benchmark**, as now, and be **twice the standard incentive rate**, as we do for enhanced incentives for other performance commitments

Allocating payments – hybrid approaches

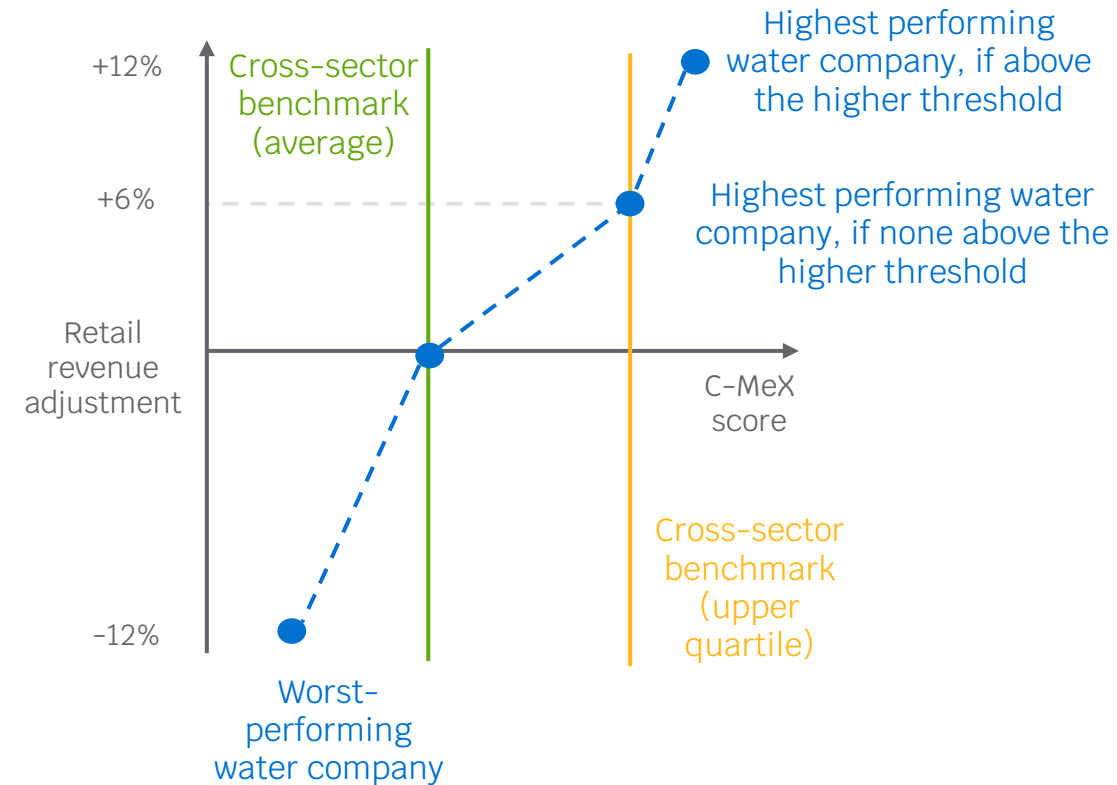
Options 3A and 3B

We could make **greater use of cross-sector benchmarks**, using them as the ‘pivots’ for each company’s payments, to ensure that companies receive payments based on how they compare to service providers in the wider economy.



Option 3C

We could **retain a higher payments threshold**, to ensure the higher range of payments apply to companies that compare favourably to service providers in the wider economy.



Allocating incentive payments for C-MeX

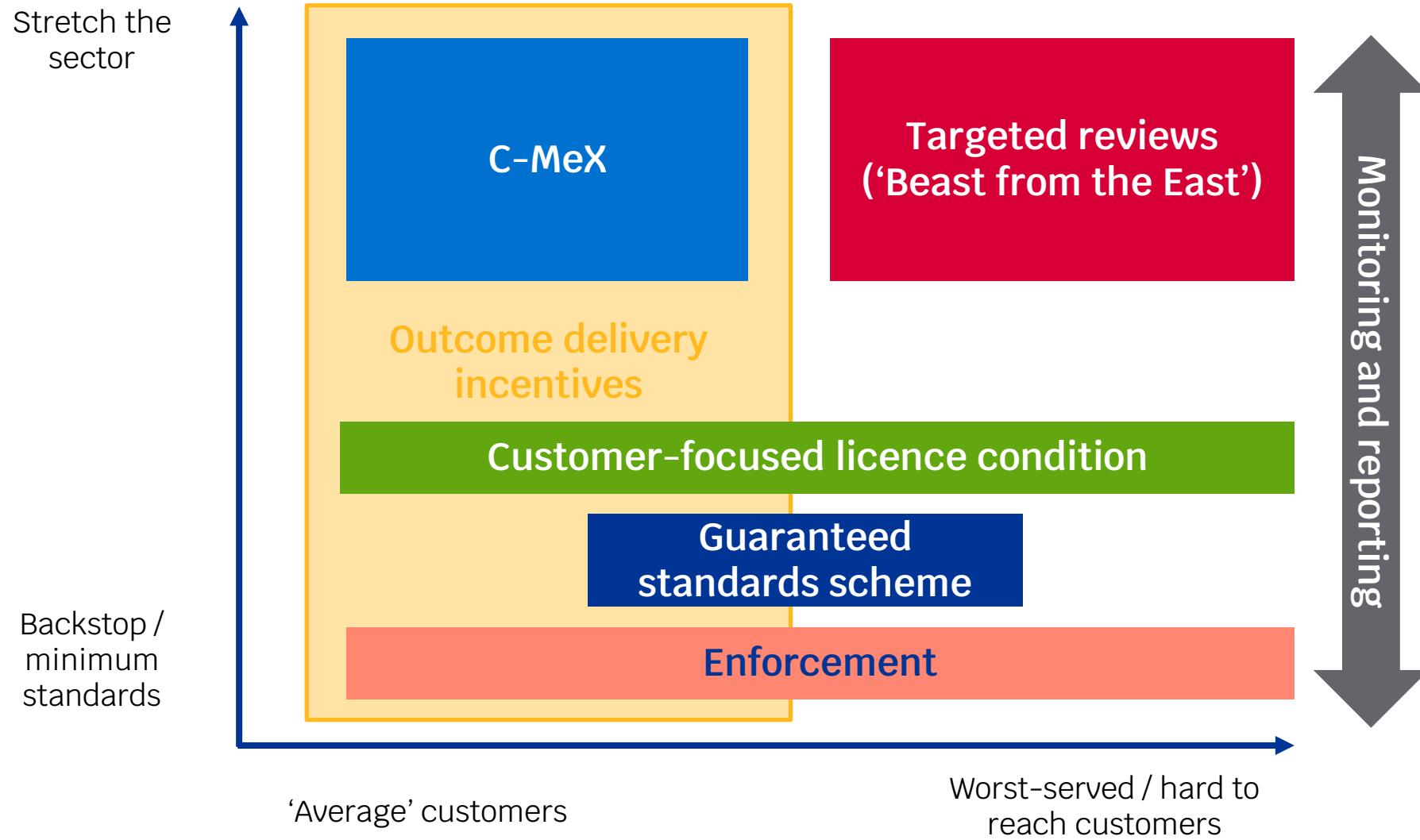
1. Do you have any views on the merits of relative and absolute incentives?
2. Should we make greater use of cross-sector benchmarks within C-MeX?





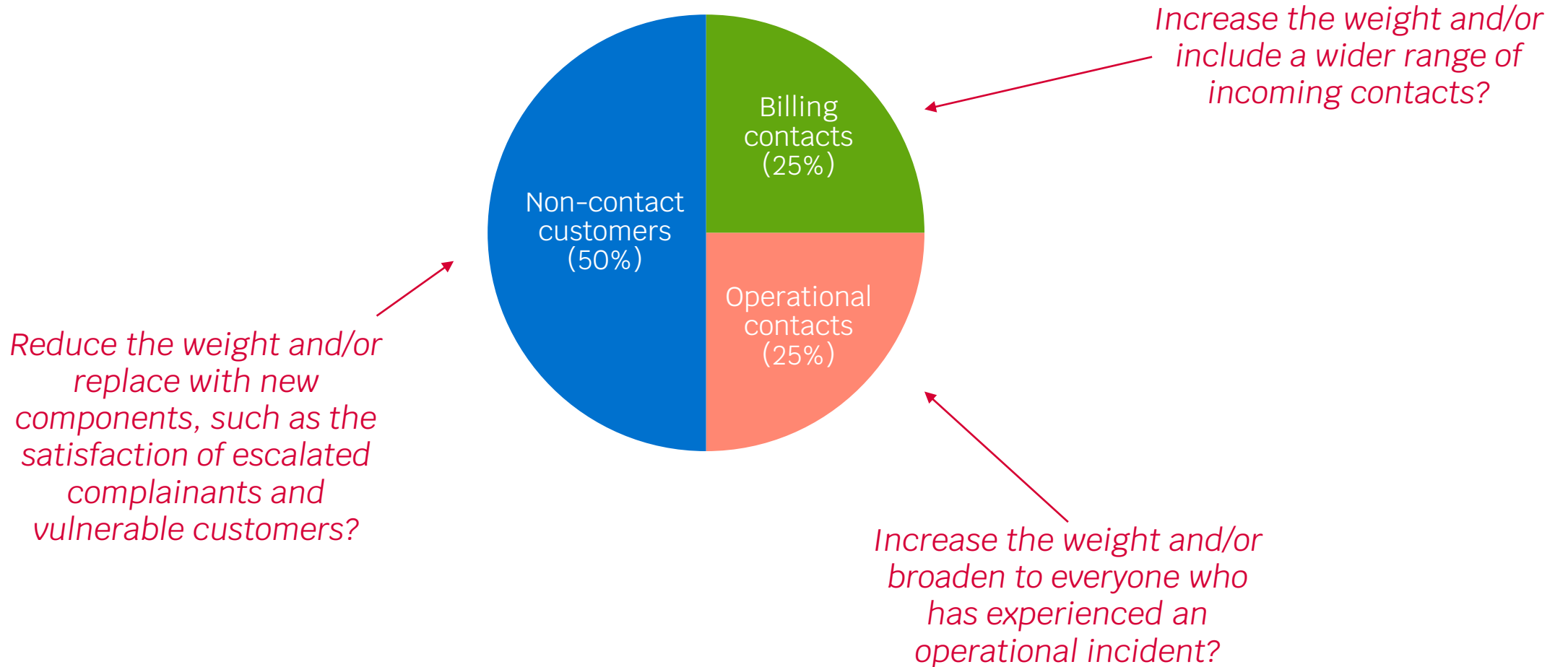
2. Coverage of customer groups within C-MeX

C-MeX in the context of our regulatory tools



Customer groups within C-MeX

Currently, C-MeX includes three broad categories of customers – each customer will also have their own diverse characteristics.



How should customer groups be represented within C-MeX?

1. Do you have any views on the current balance of customer groups within C-MeX?
2. Should we add or change the current components of C-MeX?



Any other items for noting

When done, please take a break – we will return at 14:05 for D-MeX.

**Please put any
other items for
noting in Teams
chat**





D-MeX

14:05 to 15:00

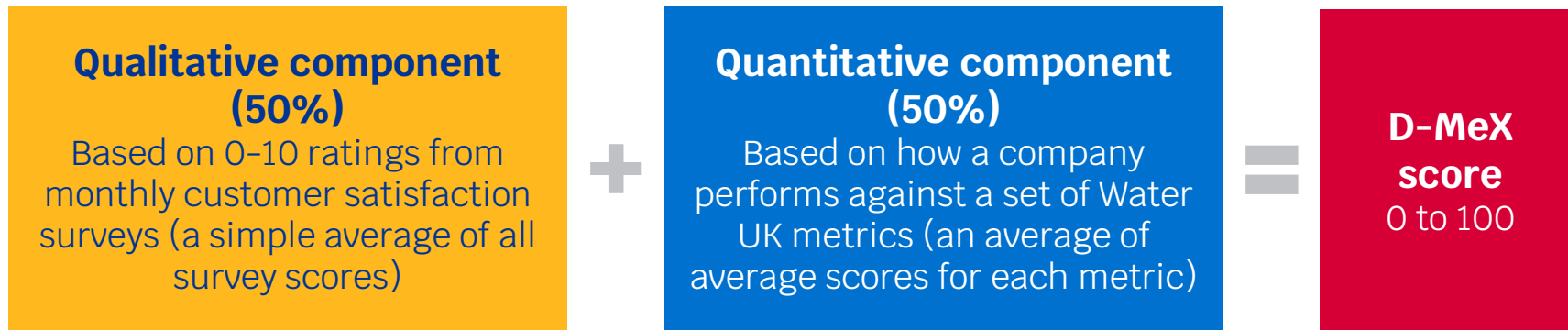
What is D-MeX? – the design



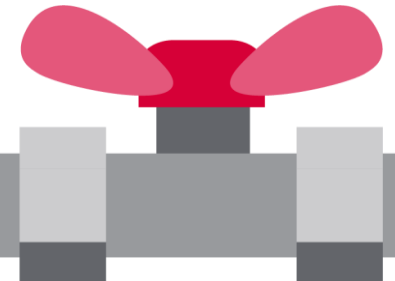
D-MeX is the **developer services measure of experience**. It was first introduced at the 2019 price review (PR19), and came into effect in April 2020.

Currently, it applies to the largest water companies in England and Wales and is designed to incentivise them to improve the service they provide to customers of developer services – this includes property developers, self-lay providers and new appointees.

Each company gets an annual score based on two components:



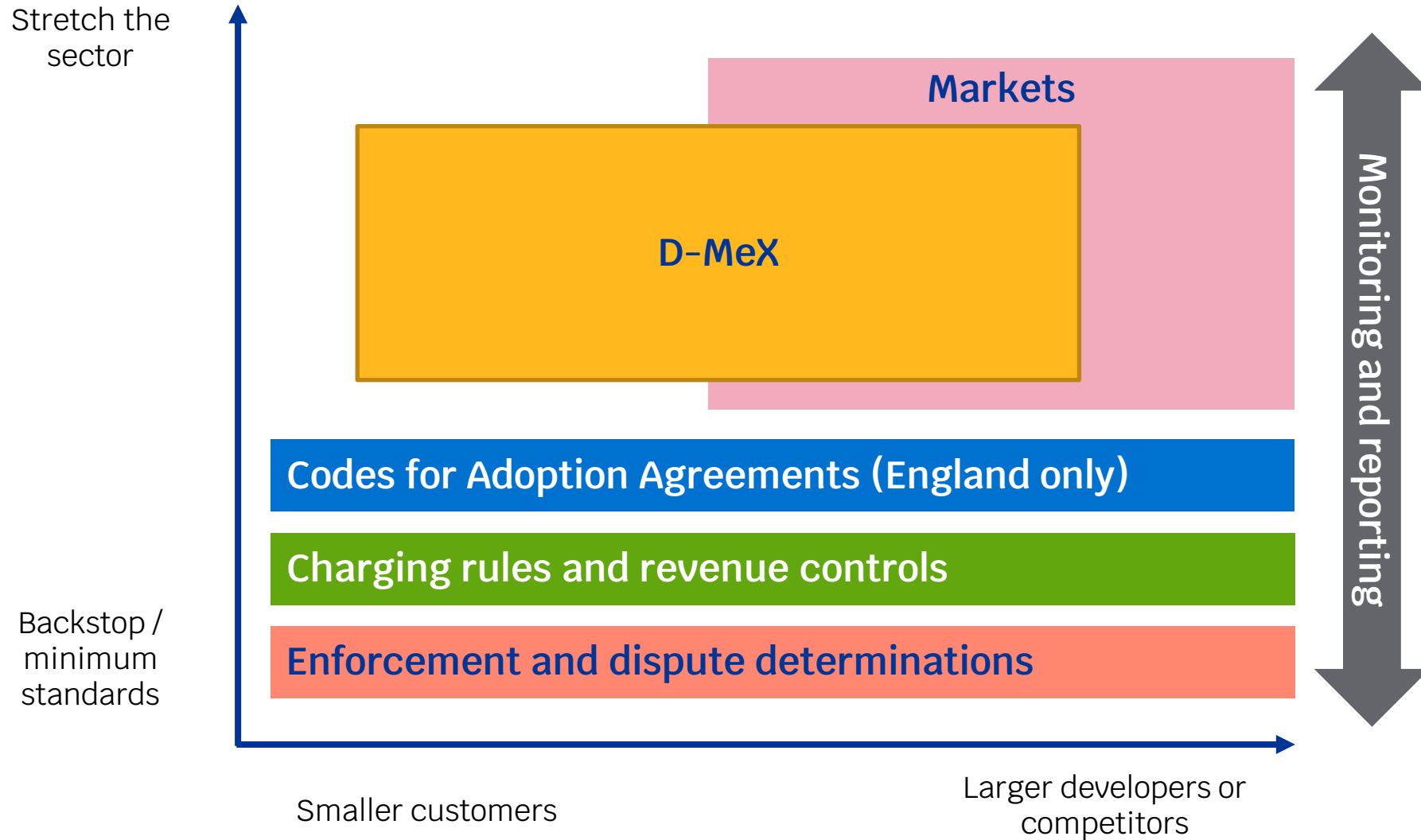
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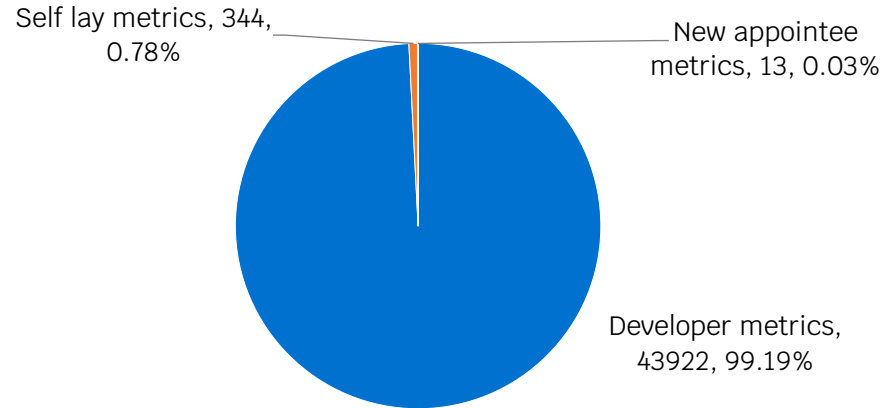
1. Coverage and stretch of D-MeX

D-MeX in the context of our regulatory tools

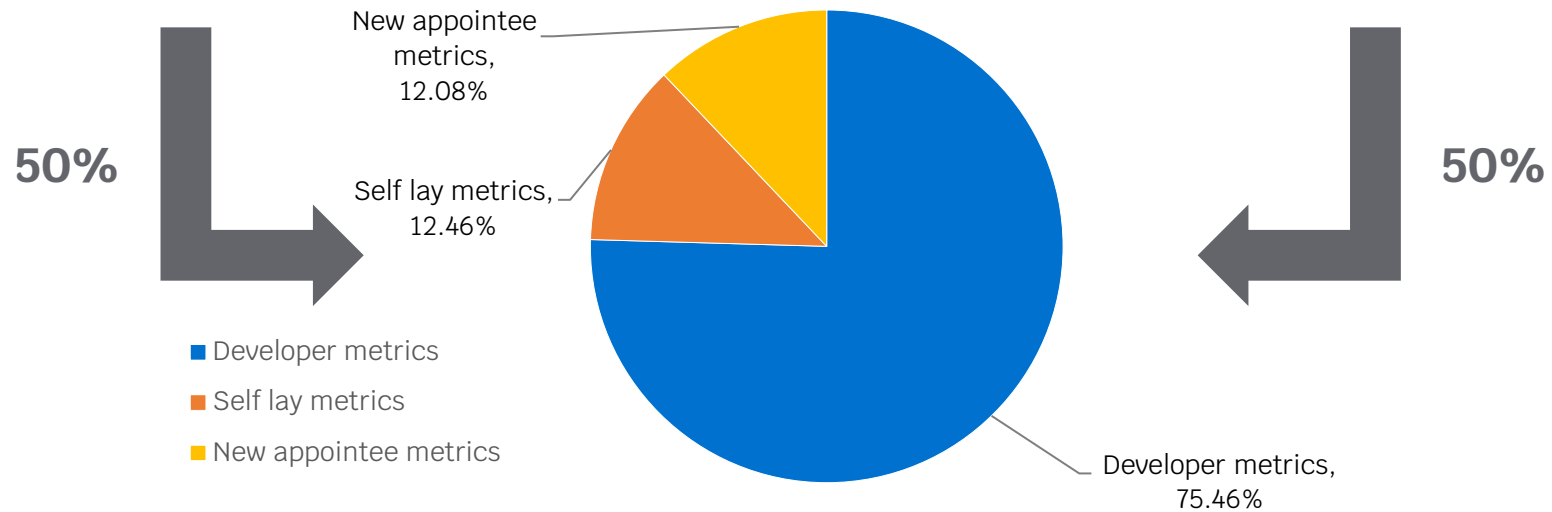
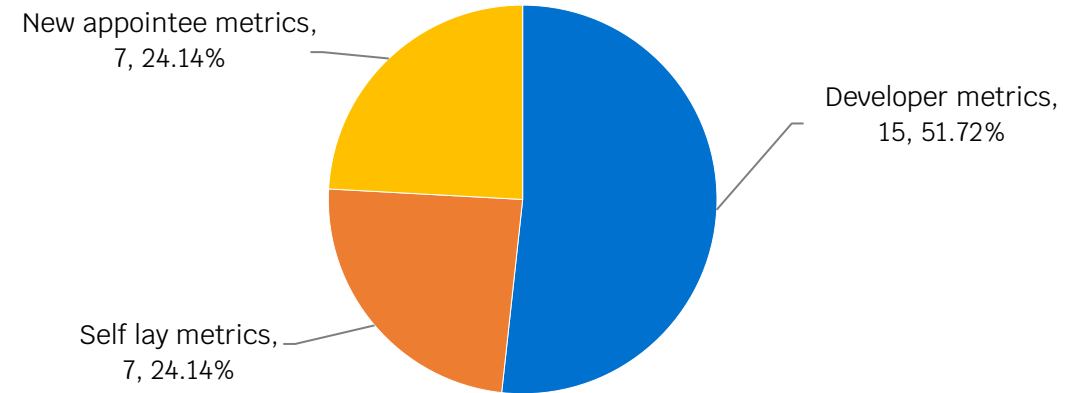


1a. How different customer groups are currently represented in D-MeX

Survey component



Quantitative component*

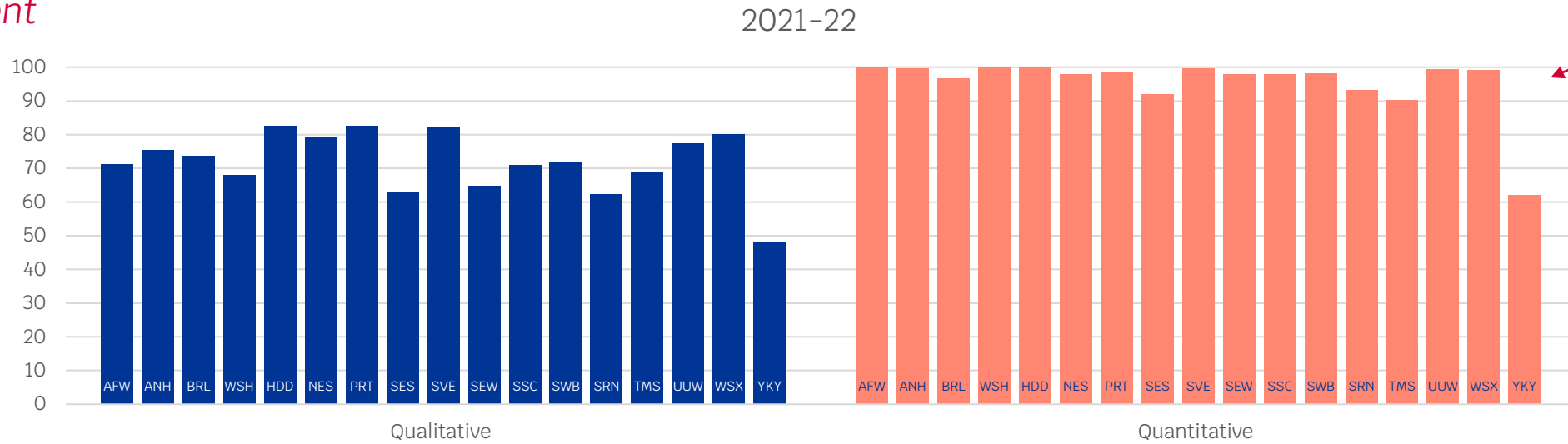
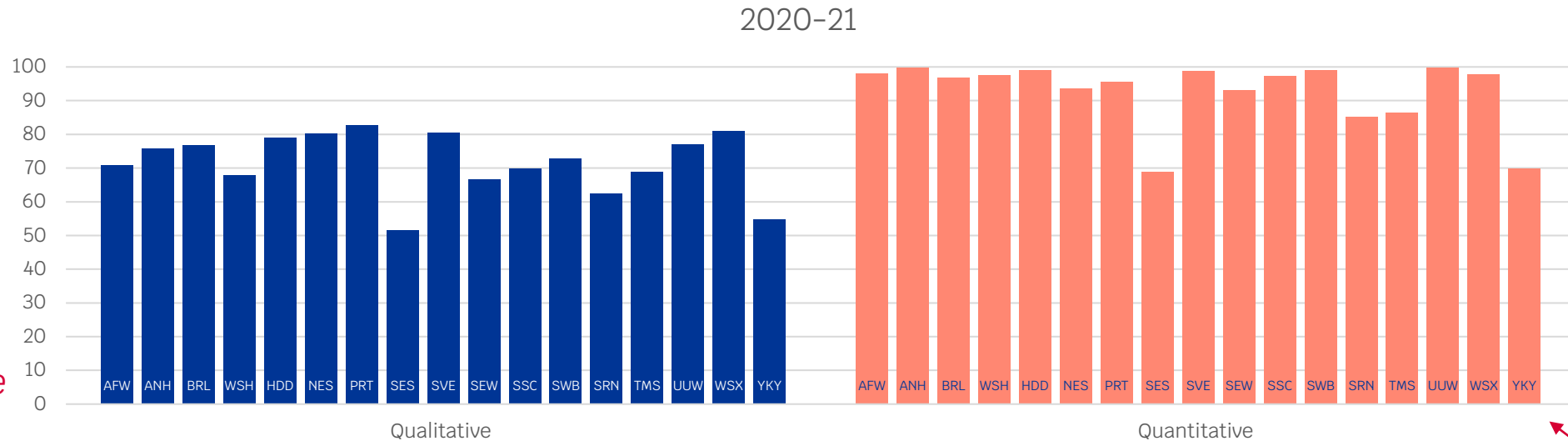


- Developer metrics
- Self lay metrics
- New appointee metrics



*Post 2025 after legacy metrics have transitioned out for English companies

Are the qualitative and quantitative components sufficiently stretching?



Should we increase the weight of the qualitative (survey) element of D-MeX?

Are the quantitative metrics stretching enough? (see next slide)



1b. Are any activities missing from the quantitative component of D-MeX...

Developer metrics

- W1.1: Pre-development enquiry (reports issued within 21 days)
- W3.1: s45 quotations (within 28 days)
- W4.1 - s45 service pipe connections (within 21 days)
- W6.1: Mains design <500 plots (quotations within 28 days)
- W7.1: Mains design >500 plots (quotations within 42 days)
- W8.1: Mains construction (within 90 days)
- W17.1: Mains diversions (without constraints) (quotations within 42 days)
- W17.2: Mains diversions (with constraints) (quotations within agreed target)
- W18.1: Mains diversions - construction/commissioning (within 90 days or agreed target)
- S1.1: Pre-development enquiry (reports issued within 21 days)
- S3.1: Sewer requisition design (offers issued no later than date agreed)
- S4.1: Sewer requisition – constructed and commissioned (within 180 days or agreed extension)
- S7.1: Adoption legal agreement – draft agreements issued (within target 14 days)

Additional sewerage adoption metrics (England only)

- SAM 3/1: Update draft agreement (within 14 days)
- SAM 4/1: Inspections & construction period (within 14 days)

Self-lay provider metrics (England only)

- SLPM – S1/2: Review PoC proposal and validate / propose PoC (within 14 days)
- SLPM – S2/2a: Design Self-Laid Main (Stage 2) – Complete design of self-lay works (within 28 or 42 days depending on complexity)
- SLPM – S2/2b: Provide formal design acceptance (within 14 or 21 days depending on complexity)
- SLPM – S3: Issue the Water Adoption Agreement (within 7 days of receiving the request)
- SLPM – S4/1: Right day metric – agreed date when the Water Company will provide the Source of Water for testing purposes
- SLPM – S5/1a: Complete the Final Connection (within 14 days)
- SLPM – S7/1: Issue consent, plot reference information, and costing details (5 days)

Self-lay provider metrics (Wales only)

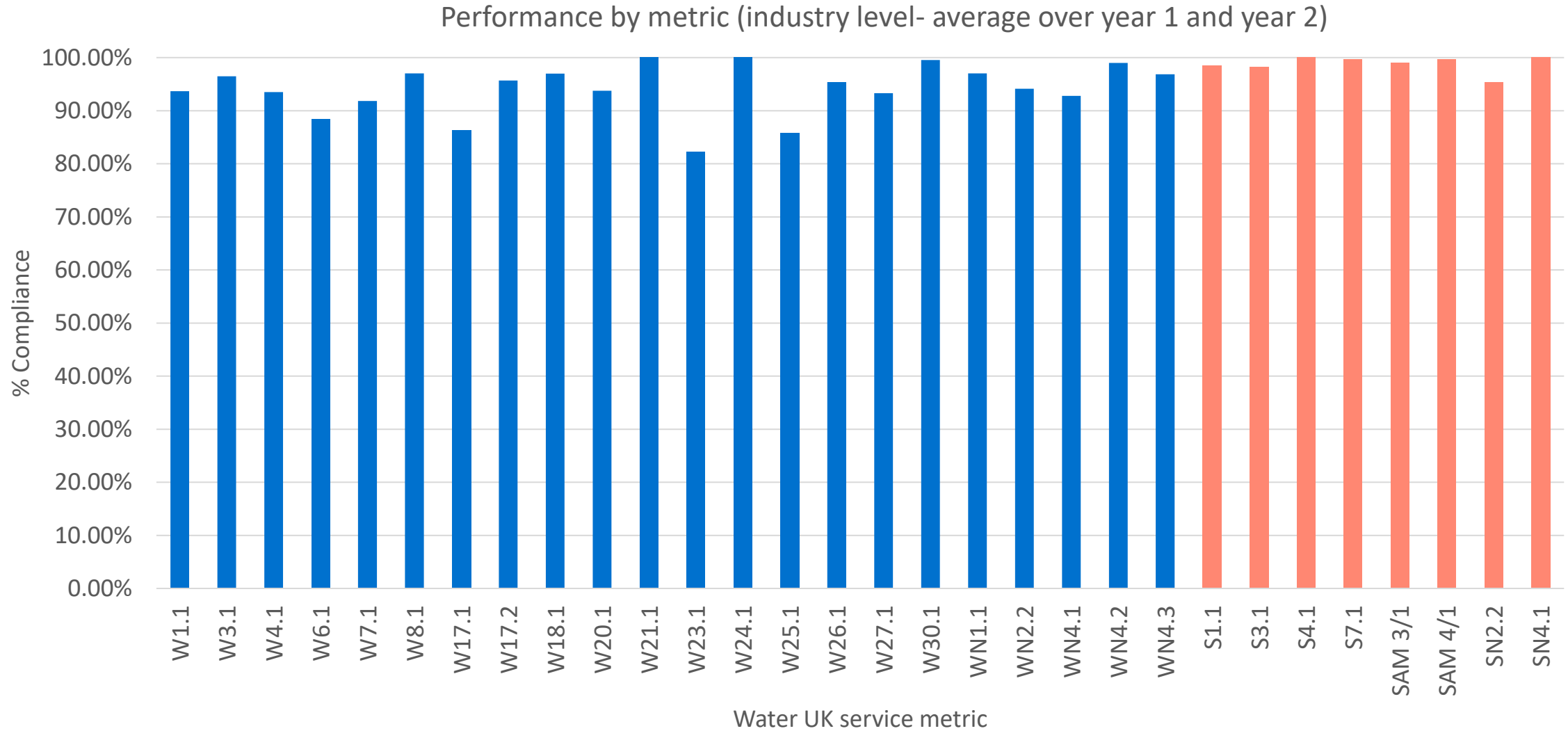
- W20.1: Self lay Point of Connection report < 500 plots etc (reports issued within 21 days)
- W21.1: Self lay Point of Connection reports >500 plots etc (reports issued within 28 days)
- W23.1: Self lay design and terms request <500 plots etc (quotations within 14 days)
- W24.1: Self lay design and terms request >500 plots etc (quotations within 28 days)
- W26.1: Self lay water for pressure/bacteriological testing (provided within 28 days)
- W27.1: Self lay permanent water supply (provided within 14 days)
- W30.1: Self lay plot references and costing details (issued within 14 days)

New appointments and variations (NAV) metrics

- WN1.1 - % of confirmations issued to the applicant within target period (within 21 days)
- WN2.2 - % Bulk supply offer letters issued to the applicant within target period (within 28 days)
- WN4.1 - % of main laying schemes constructed and commissioned within the target period (within 90 days)
- WN4.2 - % of testing supplies provided within target period
- WN4.3 - % of permanent supplies made available within the target period
- SN2.2 % Bulk discharge offer letters issued to the applicant within target period (within 28 days)
- SN4.1 % of main laying schemes constructed and commissioned within the target period (within 180 days)



... and are the quantitative metrics sufficiently stretching?



Coverage and stretch
of D-MeX

Customer representation

1. Do you have any views about the representation of different developer groups in D-MeX?
2. Should we change the weighting of the different components of D-MeX?

Quantitative component

3. Are any activities missing from the quantitative component of D-MeX?
4. Are the quantitative metrics sufficiently stretching?





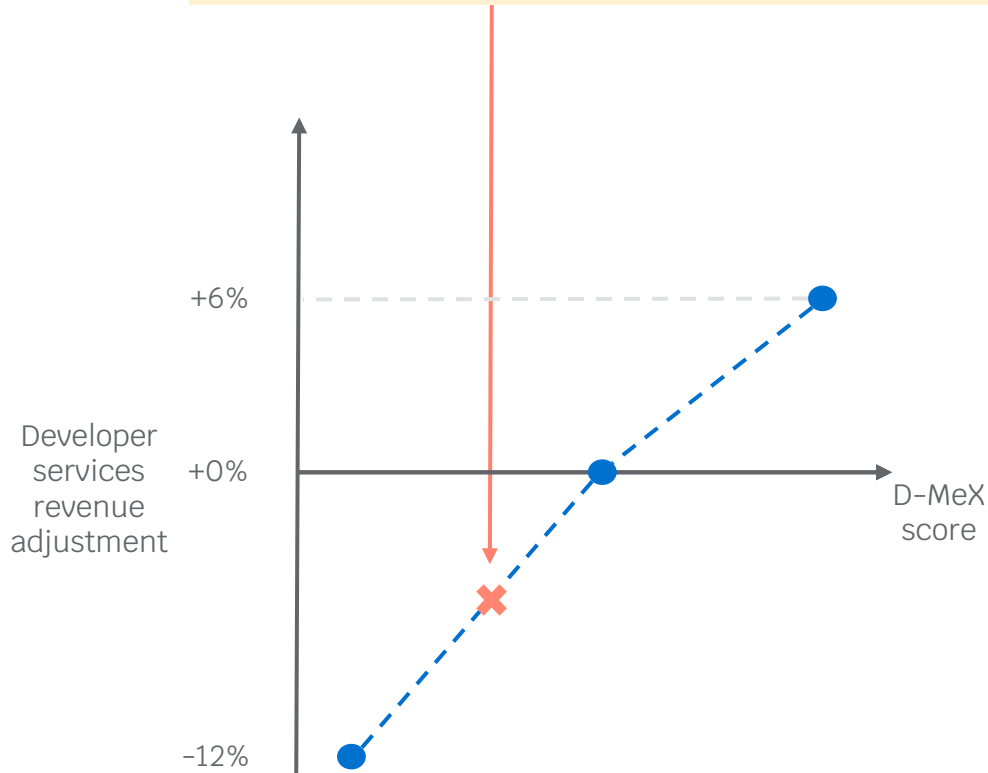
2. Allocating payments for D-MeX

Allocating payments – current relative approach

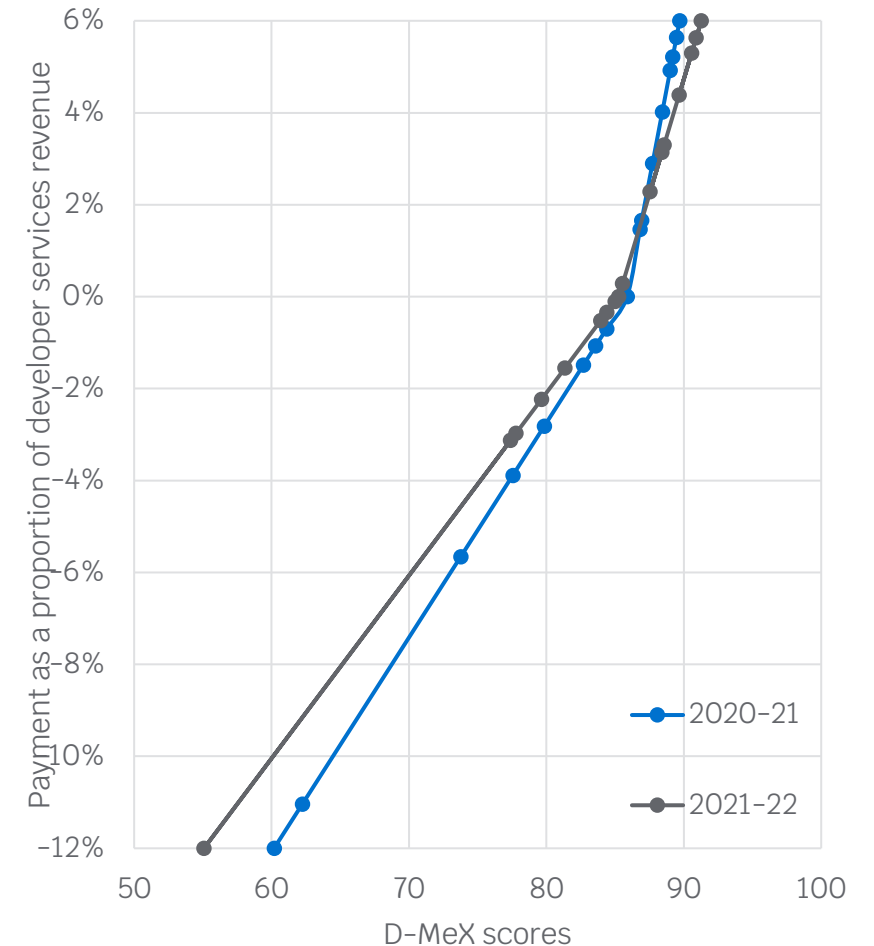
Option 1

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For example, if a company's score is 60, the middle score is 70 and the bottom performer is 50, then its revenue adjustment will be -6% (half way between 0% and -12%, since 60 is half way between 50 and 70).



D-MeX performance and payments in 2020-21 and 2021-22

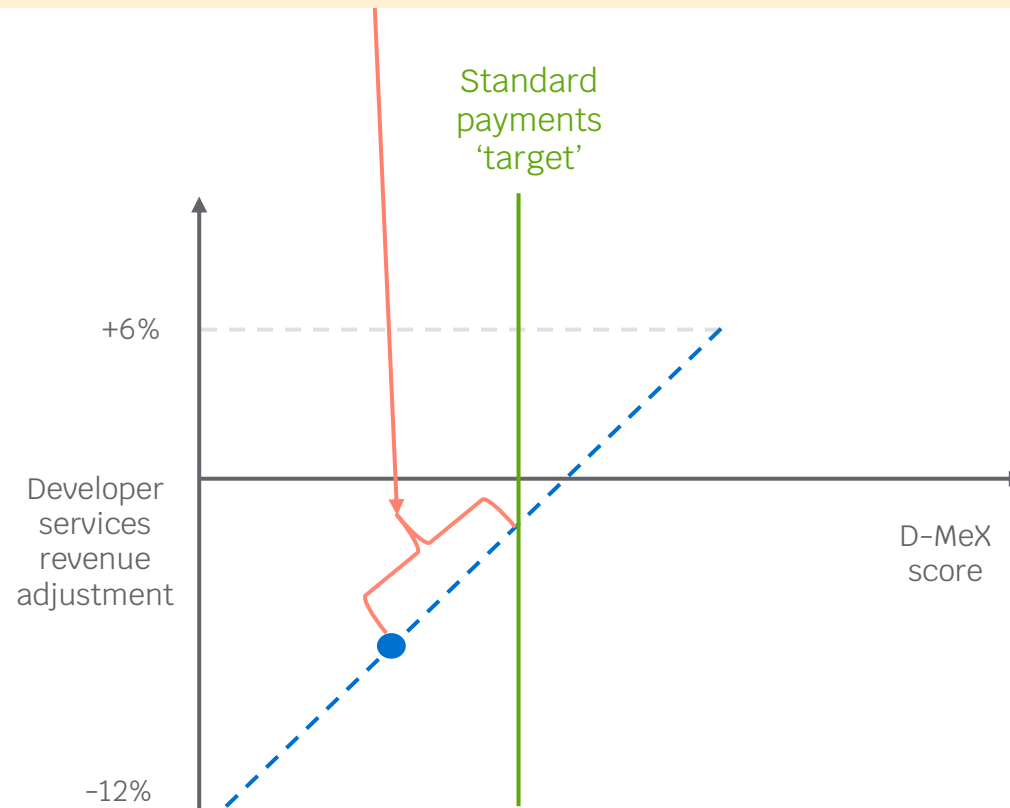


Allocating payments – absolute targets

Option 2

Standard payments for each company would be based on the **how far each company's score is from the target**. We could set the same target for all companies.

Incentive 'rates' could be based on customer research or a top-down approach.



Different approaches for English and Welsh companies?

We could set different targets for English and Welsh companies if we consider this appropriate.

Alternatively, we could have relative incentives for English companies and absolute targets for the Welsh companies

Allocating incentive payments for D-MeX

1. Do you have any views on the merits of relative and absolute incentives?
2. Should we account for differences, if any, between English and Welsh companies when allocating incentive payments?



Please put any
other items for
noting in Teams
chat

Thank you and questions

For further engagement, please contact:

PR24@ofwat.gov.uk

