

# **WSX-003 – Measures of experience**

Response to  
Ofwat's PR24 draft  
determination



**Wessex Water**  
YTL GROUP

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## Representation reference: **WSX-O03**

## Representation title: **Measures of experience**

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# 1. Summary

This document sets out our thoughts on the three measures of experience, C-MeX, D-MeX and BR-MeX. There is a section for each measure below. We have made a number of suggestions for changes to survey methodologies and weightings in all three measures, listed in table 1 below.

Our key concern is the use of the UKCSI as a cross-sector benchmark to calculate C-MeX under and outperformance payments. We have doubts about the comparability of water with other industry types such as retail particularly with the continuing negativity around the sector. The proposed methodology for translating UKCSI measures into C-MeX benchmarks is unpredictable. Outperformance payments will be skewed downwards, and we expect even the current level of reward for a consistently high performing water company to be unattainable.

We suggest retaining the current methodology for the first year of the AMP while water companies, Ofwat and the Institute of Customer Service work together to produce a cross-sector benchmark that will give confidence to water companies to invest in customer experience.

Table 1 – Summary of changes requested

Draft Determination proposal	Requested change
C-MeX – CSS survey weighting is 66.6% of the overall measure	CSS survey weighting is 100% of the overall measure and CES survey is removed. See further detail below.
C-MeX - UKCSI benchmark and proposed incentive calculation	Retain existing methodology for calculating incentives in year 1 of AMP8 while Ofwat, water companies and the Institute of Customer Service work together. New methodology would go live in Year 2 of AMP8. See further detail below.
C-MeX – Move to primarily online surveys with no check and challenge and online correction factor.	Retain existing methodology of telephone and online surveys particularly for the CSS survey. Retain check and challenge for telephone and introduce for online surveys and retain the online correction factor. See further detail below.
D-MeX – Introduce 33.3% survey component for NAVs, SLPs and large developers	Our current view is that the survey component should not be split in this way until the methodology is fully understood and a robust sample size can be guaranteed.
D-MeX – Move to annual frequency for survey component	Retain existing methodology of quarterly survey, to ensure responses are relevant
D-MeX – Move to primarily online surveys	Retain existing methodology of telephone surveys. Introduce check and challenge.
BR-MeX – Business customer survey weighting is 50% of the overall measure	Reduce weighting to 33% until success or otherwise of the new survey can be established.
BR-MeX – Market Performance Framework weighting is 25% of the overall measure.	Increase weighting of the MPF element to 33% as this provides a measurable metric on whether the service provided met pre-defined service standards.
BR-MeX – Retailer Survey weighting is 25% of the overall measure.	Increase the weighting to 33% to better balance the overall performance measure.
BR-MeX – Business customer survey has no check and challenge	Add a check and challenge process for telephone surveys. See further detail below.

Draft Determination proposal	Requested change
BR-MeX – No relative weightings for retailers' market share in the retailer surveys. For example, a retailer with a 60% share of the wholesaler's customers currently has equal input to the survey as a retailer with less than 1%.	Introduce relative weightings for retailers taking part in the retailer survey to reflect their market share.

## 2. C-MeX

We fully support Ofwat's desire to drive continuous improvement and investment in customer experience and to set outward looking performance standards for the sector. Water companies should compare positively to companies in other sectors.

We are pleased that Ofwat has put more weight on the actual customer service delivered by water companies in the new design for C-MeX. However, we don't believe that the other proposed changes will achieve Ofwat's aim of incentivising companies to improve their customer service for the following reasons.

- Using the UKCSI all sector average as the benchmark for a company's performance on C-MeX is incompatible with the risk/reward requirements set out in the PR24 final methodology. Ofwat have stated that the overall incentive is substantially skewed towards penalty. In 2023/24 all companies, including the consistently high performers like Wessex Water, fell short of proposed benchmarks and would have faced underperformance payments.
- Water companies are being measured on both the customer service they deliver and the general perception of the general public, largely driven by what they see or hear in the media. By using UKCSI, water companies are being compared to sectors where market choice predisposes customers to provide higher satisfaction scores.
- Ofwat has stated that PCs should be symmetrical and while C-MeX would be symmetrical in theory, in reality it would be asymmetrical. This is in part due to the inclusion of an external benchmark.
- The proposed methodology for translating UKCSI measures into C-MeX benchmarks is unpredictable, with very large swings in the annual benchmark and underperformance calculations resulting from relatively minor changes in UKCSI and C-MeX scores that sit outside of companies' control. Two examples of the effects of the UKCSI volatility on ODI outcomes are:
  - Wessex Water's C-MeX score dropped from 86.1 in year 1 to 84.8 in year 2 but the outperformance payment would have increased from 0.07% to 0.35% RoRE
  - Bristol Water's C-MeX score increased from 80.7 in year 3 to 81.0 in year 4 but the underperformance payment would have increased from -0.05% to -0.08% RoRE
- The minimum sample size for inclusion in the UKCSI is 48 responses which is not statistically robust. This can compound the benchmark and ODI volatility because the proposed approach could potentially set a bottom value based on a company where only 48 customers have rated their service. An example of this is Thames Water who typically are bottom of the C-MeX league table and would have received -0.21% RoRE underperformance payment in 2020-21, compared to -0.46% in 2021-22 due to the bottom company in UKCSI receiving an extremely low score in the July 2020 survey.
- The two datasets aren't comparable because the UKCSI surveys use data from only 2 months of the year whereas C-MEX surveys are monthly. Also, the benchmark will be based on prior year's UKCSI scores. For

example, the July 2024 UKCSI would be used to calculate the C-MeX benchmark for the financial year 2024/25. But the July 2024 survey is based on customer responses gathered between 4 September to 9 October 2023 and 11 March to 12 April 2024. There are large swings in UKCSI scores year on year.

- Although we operate across all channels and customers have full choice in the channel they use, most of our contact is still by telephone. The move to primarily digital surveys with no check and challenge or online correction factor will further degrade a survey approach which already struggles to meaningfully engage respondents and elicit relevant responses. Online survey scores can be spurious and are typically lower so will further impact the public's perception of the industry's performance compared to this AMP, even for the consistently high performing companies like Wessex Water.
- The RCV should not be used to calibrate incentive payments as it drives undefendable inequalities in companies' incentives to improve customer service. For example, it is estimated that good service for a customer in Wales will be worth more than 3 times the same service offering in London. This is also inconsistent with its approach to ODIs where it has aimed to set a consistent rate across the industry.
- The size of the ODI payments is not proportion with customers' valuation of customer service. Ofwat's [Customer Preferences](#) research found 'customer service' ranked as one of customers' lowest priorities. Therefore, larger ODI payments risk customers paying more for service improvements than they value.

We suggest Ofwat work with water companies and the Institute of Customer Service to develop a more appropriate and robust external benchmark for C-MeX, which is both stretching and drives continuous improvement in customer service but recognises industry specific factors and addresses concerns around target predictability. We could retain the existing benchmark and ODI approach for year 1 of AMP8 while this development work is being done.

It is important that any improved benchmark focus on customers' actual service experience, avoiding being overly influenced by wider perception measures or questions which don't apply to universal utility providers. Addressing concerns around the relevance of the benchmark and reliability will give confidence to water companies to invest in customer service improvements.

We would also advocate for the CSS element to be 100% of the measure and the CES survey removed. That might go some way to levelling the playing field against other companies in other sectors where their score in UKCSI will be focused on the direct service they provide.

### 3. D-MeX

We fully support Ofwat's desire to drive continuous improvement and investment in the developer services customer experience.

We agree that making outperformance and underperformance payments symmetrical, together with increasing the size of those incentives, will be beneficial and will drive improvements in customer service.

We welcome the proposal to increase the weighting of the survey component from 50% to 66.6%. We agree that focussing on overall service quality, rather than speed of delivery in isolation, will drive improved customer outcomes.

However, we have some reservations around whether the other proposed changes will achieve Ofwat's aim of incentivising companies to improve their customer service for the following reasons:

- Splitting the survey component so that 33.3% of D-MeX will be generated from NAVs, SLPs and large developers could lead to an issue with obtaining a sufficiently robust sample size. This would undermine confidence in the metric and increase volatility. It is our view that this issue would most likely arise in smaller water company areas, and that consideration should also be given to what percentage of these customer groups have previously requested inclusion on Ofwat's 'Do Not Contact' list on account of survey fatigue.

However, we acknowledge that we do not have access to the industry data that will have informed this proposed change. Therefore, whilst we agree that there should be fair representation within D-MeX and acknowledge that there is validity in Ofwat's proposed approach, our view is that the survey component should not be split in this way unless a robust sample size can be guaranteed.

- The proposal to move towards an annual survey for the survey component could make the customer feedback less useful to companies, as a significant proportion of it will be out of date by the time it is received. We believe that there is also a risk that customers may not accurately recall their experience, or in the case of commercial organisations, the appropriate contact could also have changed roles or left the business prior to being surveyed. Therefore, whilst we understand the rationale behind the proposed change, we would advocate for the survey to continue to take place on a quarterly basis but for it to be shortened and simplified to reduce the likelihood of survey fatigue.
- We would generally prefer that telephone surveys be retained as online survey scores can be spurious and are typically lower, so will further impact the public's perception of the industry's performance compared to this AMP. However, we equally recognise that a move towards online surveys could help to mitigate the issue of survey fatigue, as customers may find them to be less intrusive or time consuming. On balance, we support the move towards online surveys if they will continue to be undertaken on a quarterly basis, as opposed to annually. We would also like to see survey results de-anonymised and a check and challenge process introduced, which would significantly improve our ability to analyse and learn from feedback whilst also ensuring that it was an accurate reflection of a customer's Developer Services experience.

## 4. BR-MeX

We fully support the introduction of the new performance commitment to measure non-household customers' experience. Aspects of the new measure are still being actively debated and surveys of non-household customers yet to be fully proven. We broadly agree however with the proposed components of the new measure namely a survey of non-household customers, a survey of retailers and market performance metrics.

The survey of customers we believe will be challenging. There will be an inevitable need to explain wholesale and retail aspects of the service to customers. A significant proportion of customers use less than the average household and market awareness in this segment is low. There is also a risk that the retail experience will influence the survey results, for example customers being surveyed that are subject to retailer recovery action for unpaid bills.

The customer survey (B-MeX) currently has a 50% weighting. We would advocate a lower weighting, until such time as the success or otherwise of the survey can be established. A check and challenge process should also be included as an important safeguard and to provide valuable feedback on the robustness of the measure. Check and challenge for C-MeX telephone surveys has led to removal of spurious scores or inappropriate surveys.

The Retailer survey (R-Mex) with a 25% weighting, may need to be modified to address statistical anomalies that may come about due to the number and size of retailers operating in different wholesaler regions. This is a point that Ofwat has acknowledged during their engagement with the industry. This work may also want to consider the relative weighting of retailers taking part in the survey. For example, a retailer with a 60% share of the wholesaler's customers, has equal input to the survey as a retailer with less than 1%. We would hope that a method can be agreed to ensure fair industry comparisons.

Both B-MeX and R-MeX surveys (75% of the overall performance measure) are to a certain extent subjective in nature. We would support more weighting being provided to measures already included in the Market Performance Framework, as this is providing a measurable metric on whether the service provided met pre-defined service standards.

If we exclude the data quality measures, which are already part of MOSL's central data cleanse project, the remaining service metrics account for just one sixth of the performance commitment. Whilst we appreciate that this performance should be reflected in the customer and retailer experiences and feed through into the survey results, we still believe more weighting should be given to MPF measures.

We support the financial incentive/penalty being set at +/- 0.2% of RoRE, and that over and under performance payments based on industry median BR-MeX scores.