TMS-DD-053:
Thames Water PR24 DD response - C-MeX, D-MeX and BR-MeX technical appendix

Contents

1.Consultation on the Measures of Experience performance commitments at PR24 Draft Determination

This appendix provides our detailed response on the methodologies for C-MeX, D-MeX and BR-MeX. It should be read in conjunction with our 'TMS-DD-039 Thames Water PR24 DD response – Outcomes' which provides our comments on incentive thresholds and key design principles of these three incentives.
We would welcome the opportunity to discuss any of our points or proposals with Ofwat in the coming weeks, ahead of Final Determinations.

More could be done to support performance improvements from worst performing companies.
MeX incentives are calculated in relative performance of other companies. While this rightly rewards higher performance and penalises poorer performance, more could be done to support performance improvements for those at the bottom, who recognise they need to improve. To make sure customers receive the best outcomes, we consider the MeX incentive framework could develop to better support companies to improve.

One option could include recognising an increase in absolute performance, rather than relative, with the result that poor performing companies could mitigate the scale of penalty by making clear but pragmatic progress. We would be happy to explore with Ofwat how these options would work in detail.

2.C-MeX - Customer Measure of Experience

Ofwat has proposed multiple changes to the C-MeX methodology in PR24 Draft Determinations. We responded with our concerns of Ofwat's 0.5% appointee RoRE threshold and UKCSI all-sector benchmark in our main Outcomes chapter (TMS-DD-039 Thames Water PR24 DD response – Outcomes). In this appendix, we respond to Ofwat's detailed methodology of C-MeX.

2.1 Survey Weighting

Ofwat has proposed to increase the weighting of the contact survey from 50% to 66.6% to calculate a company's C-MeX score. We are supportive of this change as it will put more of the overall C-MeX score in the company's control. We welcome Ofwat's commitment to ensure that sample sizes for both surveys are robust and look forward to further collaboration to ensure that sample sizes are representative for each company.

2.2 Variety of Contact Methods

Ofwat has proposed to remove the three-point downward adjustment for now having a variety of contact channels. We are supportive of this. Since this was introduced, companies have worked hard to improve the contact channels available to customers and now a variety of contact channels is the norm in the industry.

2.3 Digital Surveys

Ofwat proposes to move to a predominantly digital survey method and remove the 5% uplift on digital scores in PR24.

While we recognise the economic and environmental benefit of using a digital survey method, we are concerned with the subsequent removal of the 5% uplift for digital surveys (e.g. email, webchat and Online Account Management). Digital survey scores are typically lower than surveys scores from other methods. This is evidenced by historical CSS from Thames Water (Figure 1), showing scores from phone surveys are significantly higher compared to other measures such as email, webchat and OAM. United Utilities and Frontier Economics have presented similar evidence, that telephone results from digital contactors was 5.9% higher than online results[1]. The removal of the 5% uplift coupled with the move to a predominantly digital survey method means that industry scores face even greater risk exposure.

UKCSI, to which Ofwat proposes we are benchmarked, uses a mixture of digital and non-digital survey methods. Therefore, C-MeX scores should have a digital uplift applied to account for this methodological discrepancy, or benchmarks reduced. We should not be penalised because Ofwat uses a different mix of survey contact channels. We consider that the 5% uplift should be retained for PR24 or benchmarks accommodate this survey method impact.

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[1] Frontier Economics; Customer Experience Metrics: Improving company incentives to support customers and the growth of competitive markets; 2023

Figure 1. Thames Water's CSS by channel – Billing (including metering)
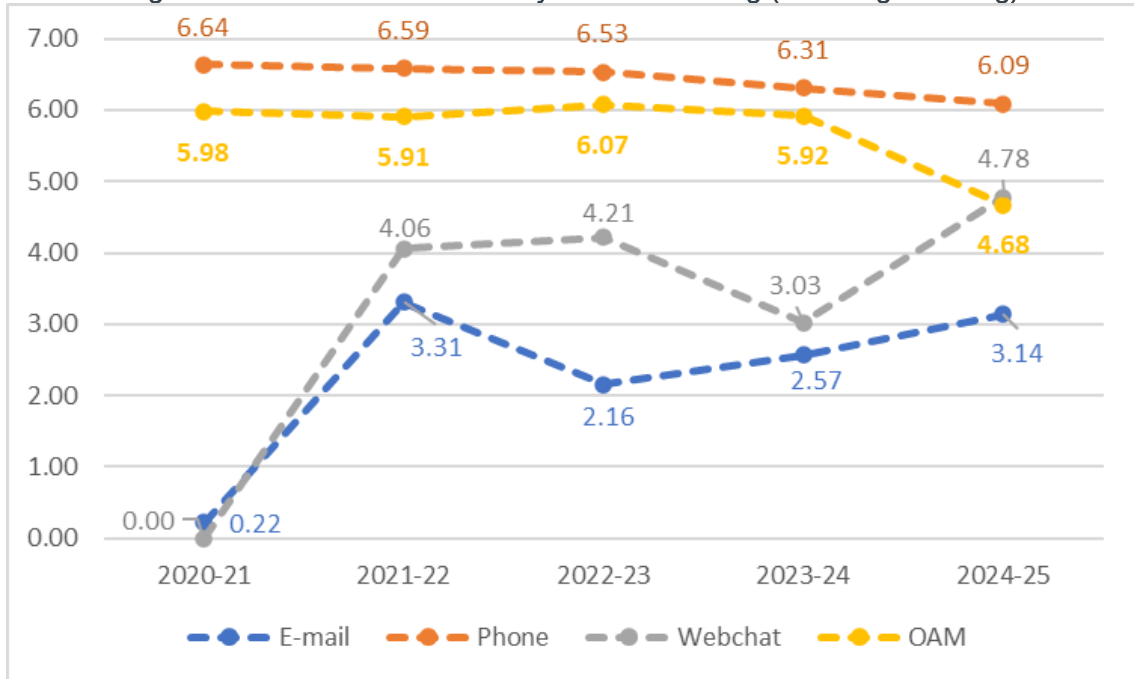
3.D-MeX - Developer Measure of Experience

Ofwat has proposed multiple changes to the D-MeX methodology in PR24 Draft Determinations. We responded with our concerns of Ofwat's 0.25% appointee RoRE threshold in our main Outcomes chapter (TMS-DD-039 Thames Water PR24 DD response – Outcomes). In this appendix, we respond to Ofwat's detailed methodology of D-MeX.

3.1 Survey component

Ofwat proposes to increase the weight of the survey component in D-MeX to 66.6%. We are overall supportive of this change.

Ofwat also proposes to split the survey component equally between surveys on small developers and surveys on large developers and competitors (NAVs and SLPs), to make sure that the voices of all developer groups are represented in D-MeX. We also agree with this change. We consider this provides a more representative view of our developer services.

3.2 Survey Methodology

Ofwat states that they expect to change the D-MeX survey from monthly surveys to annual surveys. While monthly surveys would collect customer experience on specific interactions, annual surveys would collect overall customer experience. We strongly disagree with this approach in respect of small developers, as it will dampen the accuracy of survey results.

Small developers may only make one or two connections in a year and if they are surveyed about this experience up to 11 months later, they are more likely to be influenced by public sentiment about a company rather than their own experience. Alternatively taking survey results for a single month is not representative of a full year of performance and could lead to unwanted impacts of short-term regional factors that could unduly skew results (positively or negatively). We believe it would be more appropriate and provide a truer reflection of company performance to survey small developers more regularly, such as monthly.

We are supportive of a less frequent survey for large developers, NAVs or SLPs where we have multiple interactions with them throughout the year. We believe that a quarterly or 6-monthly survey would be more appropriate than an annual survey (similar to R-MEX surveys) and should address the overall end to end service being provided.

3.3 Incentive design

Ofwat is proposing to maintain D-MeX as a relative measure. We do not agree with this proposal. In July 2023 consultation, Ofwat has set out important disadvantages of the relative approach compared to an absolute approach and these concerns remain.

For example, Thames Water's performance in 2022/23 clearly demonstrates the disadvantages of the relative scoring methodology. Our D-MeX score improved from 2021/22 by 0.8% and by 2.1% from 2020/21. However, due to unrelated and independent performance improvements by the worst performing company, the penalties that apply to Thames Water increased by more than £5 million for the year compared to the prior year, despite improved absolute performance. This material level of uncertainty frustrates the ability of companies to plan appropriate and efficient levels of investment. For other ODIs, it is largely clear throughout the period what the financial rewards or penalties will be if we succeed or fail in our actions. This makes it possible to build credible internal business cases for enhancements, with associated payback periods and risk profiles. This is much harder for D-MeX, where it is difficult to justify investing when evidence in recent years suggests our financial outturn depends more on what other companies are doing, rather than our own performance.

If the aim is to improve service for developer customers, a far simpler approach would be to set targets to improve year on year. This would enable companies to better invest at a level that matches customers' priorities, such as balancing service enhancements with keeping prices down. We encourage Ofwat to work with stakeholders to explore the opportunity of an absolute approach or potentially a hybrid approach that recognises the potential for more sustained and continuous improvement in customer service.

4.BR-MeX – Business Customer and Retailer Measure of Experience

At PR24 Ofwat has proposed to introduce a new Measure of Experience for Business Customers and Retailers (BR-MeX). The evolving design of this measure has been discussed at a series of industry workshops. However, it was excluded from the formal consultation that Ofwat held for C-MeX and D-MeX in July 2023. As such this is our first opportunity, at a relatively advanced stage of the PR24 process, to respond to the detailed design of BR-MeX formally. While the workshops have been productive and collaborative, they have not addressed issues relating to the weightings to be applied to components of BR-MeX.

We respond with our concerns of Ofwat's 0.2% appointee RoRE threshold in our main Outcomes chapter (TMS-DD-039 Thames Water PR24 DD response – Outcomes). In this appendix, we respond to Ofwat's detailed methodology of BR-MeX.

4.1 Key Performance Indicators

We strongly agree with Ofwat's suggestion to include Key Performance Indicators (KPIs) in the final BR-MEX methodology. To do otherwise would be inconsistent with customer preferences, including the priorities set out by MOSL and Retailers highlighting that good customer outcomes are dependent on good Wholesaler performance (for bilateral requests and good quality wholesaler property and meter asset data).

We believe it is critical that Market Performance Framework KPIs are included and that Ofwat should also increase the weight applied to those KPIs relative to R-MeX and B-MeX measures. While B-MeX focuses on the minority of business customers that contact wholesalers when problems arise, the KPIs are fundamental to the ability of retailers to provide good service to all customers and to ensure efficient switching and operation within the market.

Ofwat has not set out the detailed design elements of BR-MeX within the Draft Determination, which is reflective of the stage of development, so we are unable to comment on those aspects in this response.

Shadow reporting for the B-MeX element has commenced, but no data has yet been shared with wholesalers and there has been no opportunity for challenge (a particular concern given the opportunity for business customers to confuse the roles of wholesalers and retailers).

Similarly, there has been good discussion about KPIs for inclusion, but the detailed design has not yet been agreed at the working level and the performance results this would produce are not yet available.

We support Ofwat's proposal to include the three aspects of BR-MeX: B-MeX, R-MeX and KPIs. As set out in our response to the main outcomes chapter, due to the early stage of development of each of these components of BR-MeX, we believe a shadow period is necessary where financial incentives are not applied. This gives the space to continue the process of detailed design and testing that is not yet available, to avoid unwanted impacts.

As part of this, further work is needed to design and test KPIs. In order to ensure appropriate prioritisation of effort by wholesalers in the Non Household Retail market throughout AMP8, we believe it is essential that KPIs included within BR-MeX cover the main scope of wholesaler activity – namely bilateral service delivery, property data quality, and meter asset data quality.

Furthermore, Ofwat has indicated that some KPIs may not be included and could be replaced by an increase in the weighting applied to the R-MeX element of BR-MeX. The KPIs serve to incentivise the wholesaler to provide good bilateral services and the quality of wholesale data (property and meter asset data). Rather than risk the omission of KPIs from BR-MeX, we would

encourage Ofwat to ensure that KPIs are included, and significantly increase the weight applied to KPIs. Given the criticality of the KPIs to the success of the market, service to business customers, and the concerns Ofwat has voiced with the reliability of the R-MeX element (due to small sample sizes of retailers), there is a good case to apply a higher weighting than R-MeX as the four candidate KPIs address bilateral service and data quality comprehensively across the full customer dataset. We would propose a revised weighting of B-MeX 40%; R-MeX 20% and KPIs 40%.

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