

UUWR_51

PR24 Draft Determination: UUW Representation

Area of representation: Outcomes – Customer (C-MeX)

August 2024

This document outlines our representation in response to Ofwat's proposed changes to C-MeX for AMP8 within the draft determination.

Reference to draft determination documents:

Outcomes – Measure of experience performance commitments appendix, Section 3: C-MeX

1. Key points

- **We believe the proposed changes to C-MeX are suboptimal in a number of areas:** The changes will demonstrably fail to achieve Ofwat's stated aim of improving incentives for companies to increase levels of customer service.
- **The changes also do not comply with the risk/reward balance set out in Ofwat's PR24 final methodology and introduce unnecessary uncertainty into the mechanism:** The overall incentive is substantially skewed towards penalty with, for example, all companies being in penalty last year based on current performance. There is clear evidence that top end rewards are highly likely to be unachievable by any water company. Ofwat's proposed revisions to C-MeX add significant negative skew to an already negatively skewed ODI package. The proposed methodology for translating UKCSI measures into C-MeX benchmarks will yield highly unpredictable results, with large swings in the annual benchmark and penalty calculations resulting from relatively minor changes in UKCSI and C-MeX scores that sit outside of companies' control.
- **For these reasons we propose that Ofwat reconsiders its approach in light of the evidence presented, and works with water companies and the Institute of Customer Service to develop an appropriate and robust external benchmark for C-MeX:** The aim should be a metric which is both stretching and encourages improvement in customer service by recognising industry specific factors and addressing concerns around target predictability. In year one of AMP8 we propose retaining the existing benchmark and ODI approach, potentially with some smaller changes such as the increased weighting of CSS.
- **We also believe that Ofwat should not link incentive payments to regulated equity, and the check and challenge process should be retained.** The use of regulated equity to calculate incentive payments drives large, and indefensible differences in the value placed on customer service across different parts of the country. Ofwat should instead apply a simple standardised 'incentive rate per customer served' approach to calculating incentive payments. Check and challenge and telephone surveys should be retained to avoid further degrading a survey approach which already struggles to meaningfully engage respondents and elicit relevant responses.

2. UUW's understanding of the position in the draft determination

Ofwat has proposed a wide-ranging series of changes to the design, operation and incentivisation of C-MeX. Of particular note are:

- **Incentives:** Ofwat proposes that a company's incentive rate each year will depend on the numerical distance between its C-MeX score and the UKCSI average benchmark:
 - a. A company will earn outperformance payments if it performs above the UKCSI average benchmark and the size of these payments will be determined by the numerical distance between its C-MeX score, the UKCSI average benchmark and the UKCSI upper quartile benchmark.
 - b. A company will incur underperformance payments if it performs below the UKCSI average benchmark and the size of these payments will be determined by the numerical distance between its C-MeX score, the UKCSI average benchmark and the UKCSI minimum benchmark.
- **Incentive size:** Ofwat previously stated that it expects C-MeX to account for $\pm 18\%$ of annual allowed residential retail revenue (or approximately $\pm 0.4\%$ appointee RoRE) to align with historical RoRE impacts and to encourage a step change in customer service. However, it now proposes C-MeX will account for a maximum of $+0.5\%$ of a company's appointee RoRE and a minimum of -0.5% appointee RoRE. This approach has been justified on the basis that C-MeX scores have been declining since 2020, from an industry average of 81.62 in 2020-21 to 75.74 in 2023-24.

- **Customer service survey (CSS):** This will remain split equally between contacts related to operational incidents and those related to billing & general enquiries. For water and sewerage companies, the operational incidents contacts are split equally between water and wastewater contacts. Ofwat proposes to primarily use digital survey methods of SMS surveys and email surveys and expects to only use telephone and postal methods where it is required by the customer. This combination of methodologies is favoured on the basis that it provides the greatest value for money, given the low cost associated with digital survey methods, and has environmental benefits because of reduced use of postal surveys.
- **Customer experience survey (CES):** Based on evidence from the survey pilots and recommendations from their pilot agent, Ofwat expects to primarily use digital survey methods of SMS surveys and email surveys from company lists, and to only use telephone and postal surveys where it is required by the customer or to make sure that the sample is representative. Again this approach has been justified on the basis that this combination of methodologies provides the greatest value for money, given the low cost associated with digital survey methods, and has environmental benefits because of reduced use of postal surveys
- **Check and challenge process:** Based on evidence from PR19 and recommendations from the pilot agent, Ofwat proposes not to include a check and challenge process in C-MeX at PR24 as:
 - a. the change in survey methodology at PR24 will have a greater focus on online methods instead of telephone, which – it is stated – reduces the need for a check and challenge process;
 - b. it is relatively unique, with no similar processes in other regulated utility services;
 - c. the process adds significant resource burden for the survey agent;
 - d. there may be bias associated with the queries raised; and,
 - e. the total impact is small with only 2.5% of telephone interviews being challenged.
- **Sample sizes and frequency of surveys:** Ofwat states it will make sure that sample sizes for both surveys are robust, following survey principles and that it will ensure the survey frequency allows for sufficient response rates, and good quality responses from customers.

3. Issues and implications arising from the draft determination

We understand Ofwat’s desire to set outward looking customer service performance standards for the sector. We agree that improving customer service requires us to look beyond the water sector and support Ofwat’s aspiration for continual improvement in customer service. We are wholeheartedly committed to improving and investing in the service customers receive from their water company.

However, following careful consideration of the proposed changes to calculating incentive payments for C-MeX, we believe the proposed changes to C-MeX need substantial revision in a number of areas. The proposed approach to the C-MeX incentive will not achieve Ofwat’s stated aim of improving incentives for companies to increase levels of customer service, asymmetrically skew incentives, and increase overall company risk.

There are four key areas of proposed change that can be shown to directly undermine the stated aim of C-MeX to incentivise improved customer service:

- (1) Using the UKCSI all sector average to set benchmark performance is incompatible with the risk/reward requirements set out in Ofwat’s PR24 final methodology. As Ofwat itself states, the overall incentive is substantially skewed towards penalty. In 2023/24 all companies fell short of proposed benchmarks.

Ofwat has stated that PCs should be symmetrical and that whilst C-MeX would be symmetrical in theory, in reality it would be an asymmetric PC. In using an all sector UKCSI score, water companies are being compared to sectors where market choice predisposes customers to provide higher satisfaction scores.

- (2) The proposed methodology for translating UKCSI measures into C-MeX benchmarks will yield highly unpredictable results. The proposed approach generates a large swing in the annual benchmarks, 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 score dropped from 86.1 in year 1 to 84.8 in year 2, yielding an increase in reward from 0.07% to 0.35% RoRE (a fivefold increase).
 - Bristol Water's score increased from 80.7 in year 3 to 81.0 in year 4, yielding an increase in penalty from -0.05% to -0.08% RoRE

Benchmark and ODI volatility is compounded by the UKCSI's minimum sample size and the fact that C-MeX and UKCSI use data sets that are mismatched over time. Mismatched survey timings is a particularly important issue when the purpose of the surveys is to measure year on year changes in customer experience.

- (3) **Ofwat should not drop check and challenge or move to mostly digital surveys without an online correction factor.** The C-MeX surveys are already volatile with relatively large uncertainty ranges compared to the observed range of company scores and the scale of financial incentive at stake. Dropping check and challenge and moving to mostly digital surveys will further degrade a survey approach which struggles to meaningfully engage respondents and elicit relevant responses.
- (4) **The proposed RORE range is too large and RCV should not be used to calibrate incentive payments as it drives undefendable inequalities in companies' incentives to improve customer service.** The size of ODI payments is not proportionate with customers' valuation of customer service and should target +/-0.4% of RORE, in line with the approach applied to other PCs. The use of regulated equity to calculate incentive payments is also unreasonable as it drives large, and indefensible differences in the value placed on customer service across different parts of the country.

We discuss each of these points in more detail below.

3.1 Proposed benchmarks are incompatible with risk/reward requirements

Using the UKCSI all sector average to set benchmark performance is incompatible with the risk/reward requirements set out in Ofwat's PR24 final methodology. As Ofwat itself notes, based on historic performance, the incentive is skewed towards penalty¹. In 2023/24 all companies fell short of proposed benchmarks and would have been in penalty under the new mechanism.

Ofwat has stated that PCs should be symmetrical. However, the methodology developed for C-MeX would leave it symmetrical in theory only. In practice, it would be substantially asymmetrical in impact. In using the UKCSI all sector average, water companies are being compared to sectors where market choice already predisposes customers to provide higher satisfaction scores (i.e. you can only provide a score for John Lewis if you'd already made a choice to shop at John Lewis).

Ofwat was clear in its July 2023 document "Consultation on the measures of experience performance commitments at PR24" that only six of seventeen companies were near the benchmark at that time². In the Draft Determination it states that it expects 'several' companies to achieve reward³, but does not demonstrate how it has come to this assessment, nor how many companies they believe can achieve reward. Combined with

¹ Ofwat '[UKCSI benchmarks response](#)'

² Ofwat July 2023, "Consultation on the measures of experience performance commitments at PR24", page 21 Figure 2.4

³ Ofwat July 2023, "Consultation on the measures of experience performance commitments at PR24", page 16 "...we estimate that several companies would achieve an outperformance payment for achieving a score above benchmark based on the UKCSI average."

the wider incentive range under PR24, and the increase in the penalty rate for any given level of performance, this significantly increases the level of downside risk across the industry.

In addition, a large proportion of the outperformance incentive range may not actually be achievable even for the best performing companies. For example, no company has managed to exceed the cross-sector upper quartile benchmark under the current C-MeX measure, even though there are clear incentives to do so. The actual realisable incentive range for C-MeX would be asymmetric under a cross-sector approach yet Ofwat's stated RoRE range for C-MeX is a symmetric +/- 0.5%.

As shown in Table 1, applying the proposed AMP8 UKCSI derived benchmarks to 2023/24 performance and applying PR24 incentive rates, the sector wide cumulative penalty would have risen from £10m (actual) to £69m (under the new measure). This is a clearly a significant increase in the overall level of risk facing the sector in relation to the C-MeX measure.

Table 1: Reward/penalty comparison, 2023/24 performance

2023/24 C-MeX rank	AMP7 methodology (% Reg equity)	AMP8 approach (% Reg equity)	Variance
1 – best performer	+0.3%	-0.04%	-0.35%
9 – median performer	0.0%	-0.19%	-0.25%
17 – worst performer	-0.2%	-0.48%	-0.27%
Industry total (% Reg equity)	-0.03%	-0.25%	-0.22%
Industry total (£m)	-£10m	-£69m	-£59m

Source: Uuw estimates

Benchmarking water company performance against an index that includes sectors that are fundamentally different in terms of customer interactions inherently biases UKCSI scores against water companies. Comparing water companies to where customers can exercise full choice of supplier will inevitably be setting an inappropriate benchmark, as it would be for any monopolistic utility company. Substantial underperformance against these benchmarks is highly likely, with the approach likely to lock in five years of reported underperformance on customer service. This narrative will tend to overwhelm coverage of any service improvements, giving customers and other stakeholders a misleading narrative of company performance.

In addition, the performance of other water companies directly impacts a company's performance calculation. Other water companies under-performing against UKCSI can materially reduce Uuw's incentive payments/penalties (see Table 2), as they will impact the position of C-MeX benchmarks. This is true even if Uuw itself improves. This appears inconsistent with principles of good economic and outcomes-based regulation, where the emphasis is on linking rewards/penalties to company controllable factors.

Table 2: List of metrics impacting C-MeX and assessment of company controllable factors

Metric	Within company control
Individual company score	Yes
C-MeX median score	No
C-MeX unweighted standard deviation	No
UKCSI all sector average	No
UKCSI all sector upper quartile	No
UKCSI all sector bottom five average	No
UKCSI water company average	No

Source: Uuw analysis of Ofwat methodology

Finally, reputational incentives are also degraded by setting unrealistic benchmarks. Reframing C-MeX in terms of an all-sector benchmark will dampen reputational incentives for good performers. As Ofwat has recognised in its consultation document, no water company has been above the upper quartile cross-sector benchmark since the

introduction of the C-MeX measure, and even the best performing water companies would require “substantial” improvements to reach this level. This could result in little reputational incentive for good C-MeX performers to improve, as their relative performance will not, from a UKCSI perspective, be seen to be relatively good.

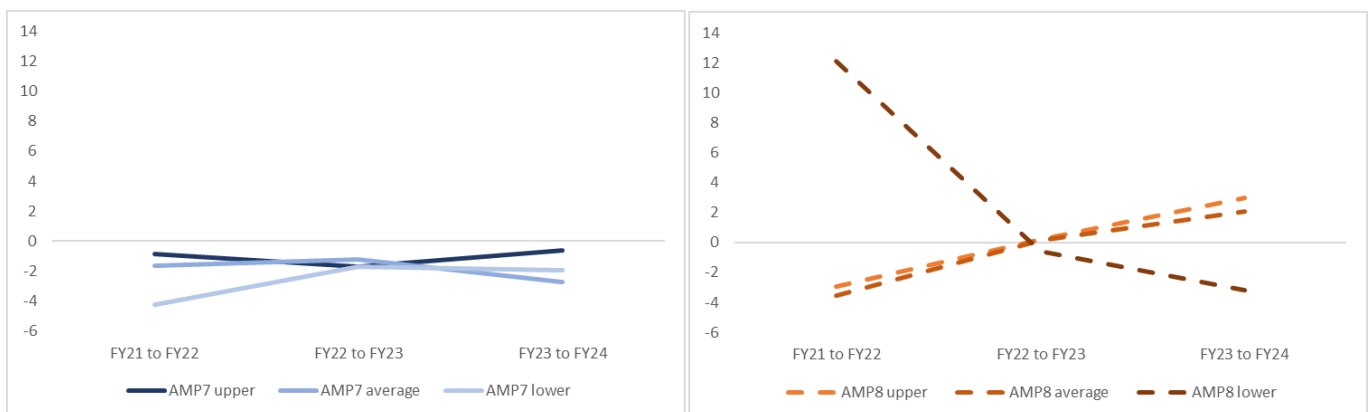
It is possible to address these concerns whilst retaining an external benchmark. By recognising the fundamental difference in customer service experiences between different sectors and selecting a UKCSI benchmark composed of sectors with similar attributes to the water sector we believe it should be possible to develop a relevant benchmark for good performance. Ofwat has already indicated the types of sectors that they believe share attributes with the water sector in the Draft Determination commentary⁴, highlighting utilities, transport and public services as examples. However, developing a benchmark will take time and require extensive stakeholder engagement if a new metric is to command confidence with the companies it is being put in place to measure. Therefore, in section five below we recommend that Ofwat, the Institute of Customer Service and water companies collectively review the approach with the intention of moving to a new benchmark by year 2 of AMP8.

3.2 Translating UKCSI measures into C-MeX benchmarks leads to unpredictable results

The results of the proposed benchmark calculation are complex and volatile. The result of this is weakened incentives for companies to improve compared to the current approach. Each year the UKCSI benchmarks are calculated based on water company and wider cross sector performance. These changes in target performance levels are outside of the control of individual companies, and the scale of movement each year in these benchmarks is substantial. As a result, it is not possible to reliably predict in advance what the financial benefits from improving customer service will be. Such uncertainty is unlikely to be supportive of business cases for investment and improvement.

Analysis of the current C-MeX approach and the proposed adjusted C-MeX benchmarks show that the new measure is much more volatile than the past. Figure 1 illustrates the difference in the year-on-year variations of the upper, average, and lower bounds under the AMP7 approach and the proposed approach for AMP8. Under Ofwat’s proposed approach for AMP8 (i.e. using the UKCSI upper quartile, the UKCSI all sector average, and the UKCSI bottom five for the boundary points), the annual variations are significantly larger than under the proposed incentive. This suggests that Ofwat’s proposed approach is embedding systematic uncertainty over the end of year reward/penalties provided by C-MeX. This uncertainty would obscure the operational value of targeting improvements in customer service.

Figure 1: Variation in C-MeX upper, average, and lower bounds is significantly larger under Ofwat's proposed approach



Source: Uuw analysis

⁴ Ofwat DD “Outcomes – Measure of experience performance commitments appendix, Section 3: C-MeX” page 17 “...there have been instances where organisations in the utilities, transport and public services sectors have been in the upper quartile of the UKCSI.”

This high level of volatility is to be expected. Under the proposed approach variations in a wide range of different factors influence eventual C-MeX boundary points. With seven different variables all impacting ultimate reward/penalty calculations - and the individual company only able to influence one out of these seven variables - it would be unsurprising if companies do not believe they have a reasonable opportunity to influence ultimate performance.

This issue can be seen when reviewing past data. If we apply the AMP8 methodology to historic C-MeX data we can see instances where individual companies' C-MeX performance shows a year-on-year improvement, but their end of year outcome worsens. Equally examples of performance degradation can result in reward increases. For example, we note that:

- Wessex Water's score dropped from 86.1 in year 1 to 84.8 in year 2, yielding an increase in reward from 0.07% to 0.35% RoRE (a fivefold increase).
- Bristol Water's score increased from 80.7 in year 3 to 81.0 in year 4, yielding an increase in penalty from -0.05% to -0.08% RoRE

UKCSI small sample size and timelines impact robustness of data

Benchmark and ODI volatility is compounded by the UKCSI's often small sample size. Given Ofwat is using a very small group of companies as the bottom value in the benchmark, there could be scenarios where very small groups of customers providing negative scores for a company could impact the ODI values across the water industry by several tens of millions. For instance, the bottom company (Thames) would have received -0.21% RoRE penalty in 2020-21, compared to -0.46% in 2021-22. This variation is due to the bottom company in UKCSI receiving an extremely low score in the July 2020 UKCSI.

Further to this, the two data sets are not directly comparable. The UKCSI uses data from 2 months of the year (for the July 2024 Index the survey data covers the period 4th September to 9th October 2023 and 11th March to 12th April 2024). Conversely, C-MeX samples 12 months of the year. When considered alongside Ofwat proposals to use the prior year's UKCSI scores to benchmark the current year's performance there emerges a material timing disconnect between UKCSI and C-MeX surveys. This means data periods are not directly comparable. So, for example, C-MeX data for April 2024 through to March 2025 will be compared to UKCSI scores from Sep/Oct 2023 and Mar/Apr 2024. We observe big swings in UKCSI scores year-on-year⁵, so using data from different time periods could have significant impacts on the measured performance outcome. Mismatched survey timings is a particularly important issue when the purpose of the surveys is to measure and incentivise annual changes in customer experience.

3.3 Check and challenge and telephone surveys should be maintained

Ofwat should not drop check and challenge or move to mostly digital surveys without an online correction factor. Check and challenge is a crucial part of the C-MeX process, providing both an opportunity to catch and correct errors in the survey process, and provide companies with confidence in their final C-MeX scores. Shifting almost all surveys to a digital channel will actively undermine the effectiveness of the surveys, as it has been acknowledged by Ofwat and others that mixed method research is more inclusive⁶.

Check and challenge

The purpose of C-MeX is to incentivise companies to improve the customer service that they offer to all customers. In order to provide effective incentives C-MeX needs to be a robust measure of actual customer service/experience performance and efforts should be made to reduce any 'noise' in the estimation of performance. The C-MeX surveys are already volatile with relatively large uncertainty ranges compared to the observed range of company scores and the scale of financial incentive at stake. Dropping check and challenge will further degrade a survey approach which struggles to meaningfully engage respondents and elicit relevant responses.

⁵ For example the UKCSI water average score in July 2023 was 72.7, a 3.5 point drop from the same measure in July 2022.

⁶ Ofwat, "PR24 and beyond: Customer engagement policy – a position paper" Feb 2022, page 6

Ofwat states the number of upheld challenges is low in the context of the total number of surveys carried out⁷, however this fails to recognise that whilst the number of challenges raised may be low, they remain highly material to eventual outcomes. Over the last two years we have raised a number of valid challenges related to telephone surveys which have had a material impact on UW C-MeX rewards. Typically, these challenges relate to classification or scoring errors by the survey company. In addition, we continue to identify and report challenges related to online surveys, even though the current methodology does not allow challenges on this survey category.

Considering both accepted challenges to telephone surveys and challenges to online surveys that cannot currently be considered the changes would have impacted UW C-MeX scores by around half a point per year. This half a point would increase rewards by £800,000 over the two sample years, and represents a 17% increase on our pre challenge outcome, as shown in Figure 2.

Figure 2: Impact of UW identified challenges in 2022/23 and 2023/24

22/23 Before C&C	£ 2,960,000	23/24 Before C&C	£1,740,000
22/23 After C&C (Actual Reward)	£ 3,050,000	23/24 After C&C (Actual Reward)	£1,820,000
£ made by C&C successful challenges	£ 90,000	£ made by C&C successful challenges	£ 80,000
22/23 Hypothetical Online Removal	£ 3,460,000	22/23 Hypothetical Online Removal	£2,040,000
Difference	£ 410,000	Difference	£220,000
22/23 Total of All Challenges (Upheld phone & Online included)	£ 500,000	23/24 Total of All Challenges (Upheld phone & Online included)	£ 300,000

Source: UW analysis

With C-MeX's proposed reward/penalty range increasing to 0.5% of regulated equity we can see that, for UW, check and challenge on both telephone and digital surveys could impact outcomes by around £2.5m over AMP⁸. We therefore consider that this scale of impact is clearly a material issue, and companies should have in place mechanisms to identify and remedy survey agency errors in the interests of achieving an accurate outcome for the incentives that have been put in place.

The CMA's guidance on the use of customer survey evidence sets out several design principles needed to deliver statistically sound research. One of these requirements is that *"the fieldwork team is appropriately briefed, and interviewing quality monitored, as appropriate"*⁹. The guidance notes that while comprehensive briefing can help to mitigate the risk of poor-quality fieldwork, it cannot fully eliminate the risk and "it is important that interviewing is monitored rigorously" on an ongoing basis.

Maintaining the existing check and challenge process and reviewing opportunities to extend to the online element of C-MeX is in keeping with standard best practice and is key to ensuring that these measures are fit for purpose. Given this clear evidence of material errors occurring in the survey process it seems difficult to understand why Ofwat considers it is justified in proposing the ending of this process. In fact, the check and challenge process should be extended to cover both telephone and digital surveys, to help improve the robustness of C-MeX surveys and address repeated classification and scoring errors by survey agencies. This is particularly the case when the measure is undergoing material changes and is likely to have a greater financial and reputational impact in future.

Digital surveys and online correction factor

Moving almost all surveys to digital surveys and removing the online correction factor will also further degrade the link between customers' experience with companies and the survey techniques applied.

⁷ Ofwat DD "Outcomes – Measure of experience performance commitments appendix, Section 3: C-MeX" page 22

⁸ Based on impact of £400k/year in AMP7, and then uplift for the increase to the C-MeX incentive from 0.4% of RoRE in AMP7 to 0.5% in AMP8.

⁹ CMA, May 2018 [Guidance. Good practice in the design and presentation of customer survey evidence in merger cases](#)

Ofwat proposes to only offer postal or telephone surveys on customer request. If, as implied, the initial invitation to take part in a C-MeX survey is made via a digital or SMS route then customers that find it difficult to engage via these routes are unlikely to be able or willing to take up the offer of a written or telephone survey, in effect ending telephone surveys as a part of C-MeX.

However, as Ofwat sets out in its document “PR24 and beyond: Customer engagement policy – a position paper”¹⁰ best practise customer research should “*use mix-method approaches to provide a more inclusive set of findings*”. The existing C-MeX surveys are already narrowly defined, using only qualitative research techniques.

Our own work on Affordability and Acceptability testing for PR24 found that many ‘hard to reach’ and vulnerable customer groups were unlikely to engage through online or SMS surveys¹¹, and that these customer groups can hold views that differ from the norm. Further narrowing research methods by all but ending telephone surveys is highly likely to result in a substantial number of customers being unable to take part in future C-MeX surveys.

Our assessment is that ending telephone based surveys risks excluding views from important sub-groups of customers from C-MeX surveys. This will mean that excluded groups will not have their experience of service being adequately measured or reflected in the total incentive package for AMP8. These groups should be heard and represented. Based on this we recommend that Ofwat retains telephone-based surveys in their current form as part of C-MeX.

In addition, we note that Ofwat’s justification for ending use of the online correction factor is based solely on the intention to end telephone surveys. Therefore, we conclude that our recommendation of retaining telephone surveys will also require the retention of the online correction factor.

3.4 The proposed RORE range is too large and RCV should not be used to calibrate incentive payments

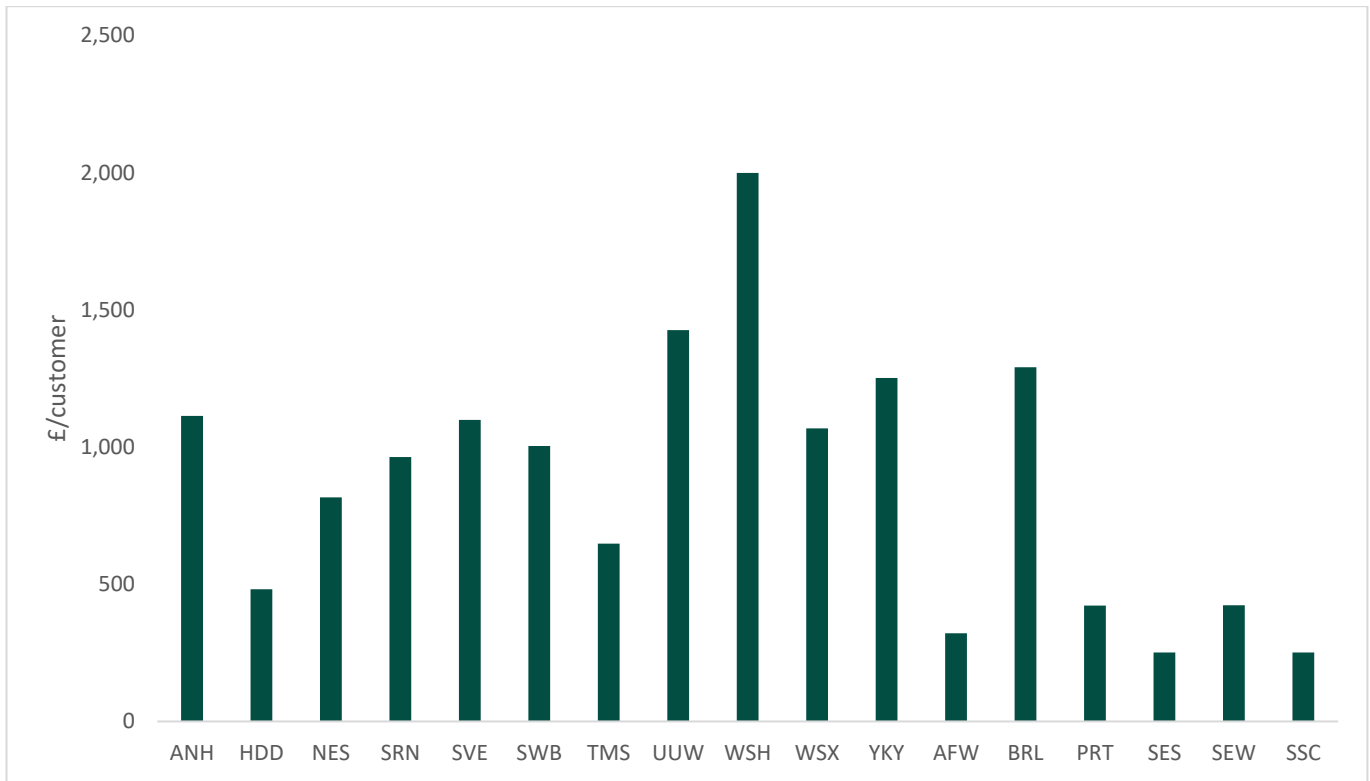
The proposed size of ODI payments is not proportionate with customers’ valuation of customer service. Ofwat’s Customer Preferences research found ‘customer service’ ranked as one of customers’ lowest priorities. Therefore, larger ODI payments risks customers paying more for service improvement than they value. Following the logic applied when setting all other performance commitments’ incentive rates Ofwat should be aiming for a RORE range of around +/-0.4%, aligned with other measures that were identified as being of a lower priority by customers.

In addition, we do not support the proposed approach for calculating incentive payments based on the proportion of each companies’ regulated equity. This approach suggests that the value of customer service in each company area should be dictated by the scale of past capital investments. This would lead to customer service in some areas of England and Wales being valued nearly eight times higher than in other areas. We propose instead that either the current revenue linked arrangements be retained or a simple mechanism based on numbers of customers served be used.

¹⁰ <https://www.ofwat.gov.uk/wp-content/uploads/2022/02/PR24-customer-engagement-policy.pdf>

¹¹ United Utilities “[Affordability acceptability testing research](#)” April to September 2023

Figure 3: Regulated equity per customer (2022/23)



Source: UUW analysis

By calibrating C-MeX incentive payments to regulated equity, each company will face a very different incentive to improve service for each customer served. As shown in Figure 3, in 2022/23 the regulated equity per customer served ranged from a maximum of £1,999 to as little as £251. This would mean that a regulated equity based incentive calculation would in effect place a value nearly eight times greater on the service provided to customers served by companies with relatively higher RCVs compared to those with lower RCVs. It does not seem appropriate that the value placed on customers’ experience of service is so directly dictated by a financial mechanism such as regulated equity.

The current approach of using a proportion of residential retail revenue provides for relatively more consistent incentivisation rates per customer. Whilst variances between company areas still exist, the range is smaller, with the highest rate of retail revenue per customer in 2022/23 amongst large WaSCs being £36, and the lowest £15 per customer. Once consideration of single versus dual service customers is accounted for the variance appears even smaller.

An even better alternative would be to calibrate maximum incentive payments based on the number of customers served. This would ensure that all water companies face the same financial incentive to improve service to each of their customers, regardless of relative size of companies’ RCVs. It would result in differences in the RORE ranges associated with C-MeX between companies, as they do today. However, this would be appropriate as it equalises incentives across companies on the targeted outcome, namely the service experience that customers receive.

4. What Ofwat can do in the final determination to address these issues

With the intention of moving to a new benchmark by year 2 of AMP8, we propose Ofwat should recalibrate its approach and work with water companies and the Institute of Customer Service to develop an appropriate and robust benchmark for C-MeX, which establishes an external benchmark which is both stretching and encourages

improvements in customer service by recognising industry specific factors and addressing concerns around target predictability.

In year 1 of AMP8 we propose retaining the existing benchmark and ODI approach, with some smaller changes such as the increased weighting of CSS. Ofwat should retain the use of retail revenue for ODI, and the check and challenge process.

There is precedent for altering the specification of MeX measures after Final Determinations. It is key that an improved benchmark focusses on customers' actual service experience, avoiding being overly influenced by wider perception measures or questions which don't apply to universal utility providers (like Net Promoter Scores). Addressing concerns around benchmark relevance and reliability can help command the confidence of water companies, unlocking future investment.

The RORE range is too large, and Ofwat should target a general +/-0.4% of RORE, in line with the approach applied to other PCs. The use of regulated equity to calculate incentive payments is also unreasonable as it drives large, and indefensible differences in the value placed on customer service across different parts of the country. Instead Ofwat should apply a simple standardised incentive rate per customer served approach.