

Methodology Information Paper 12: Levels of service

Introduction

This information paper reviews the appropriateness of OPA targets and discusses the reasons why the Commission proposes to focus on setting only prices, not service levels, for the regulatory period 2010-2014.

It begins by discussing the issues for a regulator with setting both maximum charge caps and service levels. It goes on to discuss the emerging retail market and the adjustments required to the OPA once the retail market has developed. The paper continues with the changes we plan to make to update the OPA to improve consistency with Ofwat for the next price review. It concludes by outlining the proposed approach for setting prices only, not service levels.

Levels of service

It is a guiding principle that Scottish Water should not seek to live within its charge caps by reducing the level of service it provides to customers. We therefore set clear milestones for improvements in customer service during the 2006-10 regulatory control period. This section explains the approach we took, and the progress Scottish Water has made since then.

How levels of service are measured

The Water Industry Commissioner agreed the introduction of Guaranteed Minimum Standards (GMS) for the Scottish water industry in 2000. These are the minimum standards of service that Scottish Water must meet, and which customers have a right to expect. Failure to comply with the standards entitles customers to financial compensation. The GMS cover Scottish Water's performance in relation to:

- planned and unplanned interruptions;
- internal sewer flooding incidents;
- payment enquiries; and
- complaints.

The GMS do not cover every situation in which poor levels of service arise. So while we regard Scottish Water's performance in meeting the GMS as important, we believe that the overall performance assessment (OPA) provides a more comprehensive picture of the level of service. For this reason we measure the level of service that Scottish Water provides to its customers using a version of the OPA.

The OPA framework was developed by Ofwat to assess the performance of the water and sewerage companies in England and Wales. It takes account

of the factors that customers consider to be most important, and combines individual service measures such as how quickly supply is restored after an interruption, how quickly Scottish Water handles complaints and its performance in improving drinking water quality and environmental compliance.

The OPA depends on performance in each of 15 individual performance measures. We can also compare performance for each individual measure. We included as many of the measures that are used by Ofwat as possible in our assessment of the OPA score for Scottish Water.

To calculate the OPA score, we converted Scottish Water's performance in each service area to a score out of 50 points. Once all of the individual service measures had been converted to scores out of 50, they were weighted according to the importance of each measure to customers. Further details about the OPA are available on our website¹.

Scottish Water's performance over 2003-2006

We published information about Scottish Water's levels of service performance in our 'Customer service report 2003-06' (September 2006). This showed that Scottish Water's OPA score improved during the period 2002-03 to 2004-05, from 133 to 177. However, it fell back in 2005-06 to 165. This resulted in an overall improvement of 24% during the period to 2005-06.

We welcomed this improvement and expect to see Scottish Water building on this foundation in the 2006-10 regulatory control period.

Our approach to levels of service at the 2006-10 review

At the 2006-10 price review, we had originally intended to adjust our benchmarking of Scottish Water's efficiency relative to that of the companies in England and Wales to take account of the poorer level of service provided to customers in Scotland. However, Scottish Water did not provide the information we needed to do this, so it was not possible to assess the full scope for efficiency (including both reductions in costs and improvements in the levels of service).

We therefore decided to take another approach, which was to set separate targets for Scottish Water to reduce costs and to improve customer service. We set price limits in the final determination on this basis.

We required Scottish Water to improve its level of service – as measured by the OPA – by some 40% by the end of the 2006-10 regulatory control period, as Table 3.1 shows. We set annual milestones for improvement in the OPA.

¹ Information note 07 'Customer Service: Overall Performance Assessment (OPA)'.

Table 1: OPA milestones set at the 2006-10 review

| | 2004-05 actual | 2005-06 | 2006-07 milestone | 2007-08 milestone | 2008-09 milestone | 2009-10 target |
|-----|-------------------|---------|----------------------|----------------------|----------------------|-------------------|
| OPA | 177 | - | 195 | 213 | 232 | 250 |

In setting targets for improvements in levels of service, the Commission took the view that it was in the best interests of customers for them to benefit from the levels of service enjoyed by customers in England and Wales. Scottish Water is making welcome progress against these targets, and we expect the gap in performance with England and Wales to reduce significantly by 2010.

Appropriateness of OPA targets: regulatory incentives and process

Issues for 2010-14

As Scottish Water improves its levels of service performance, further target setting for the period beyond 2010 may well require the Commission to determine the relative merit of a unit of service improvement and a unit of additional cost to achieve that improvement. For example, what is the relative merit – ie benefit to customers - of setting targets for levels of service higher (or lower) than those achieved in England and Wales, but requiring higher (or lower) costs than those incurred in England and Wales?

In monitoring progress against targets that cover both levels of service and costs, it is likely to be difficult to measure the marginal impact of either missing or exceeding the regulatory targets. For example, how would the Commission assess overall performance and value for money to customers if Scottish Water were to deliver better levels of service than required by targets, but at higher costs than were allowed for in prices?

Our proposals

For the period 2010-14, we would expect Scottish Water to ensure that its performance as measured by OPA is comparable with companies in England and Wales, without the Commission setting specific targets. Ofwat has not in the past set levels of service targets for companies. Instead, it publishes annual performance tables that act as an incentive for companies to deliver improving levels of service. It may prove difficult for us to predict the strategies that companies will adopt in response to this incentive over the period to 2014. In view of this, we propose to concentrate on setting the maximum charge cap for Scottish Water to deliver a level of service comparable to the level of service delivered by the leading companies in England and Wales in 2007-08. This level of performance will be known before we set prices for 2010-14.

We expect that OPA will remain a very important element in assessing Scottish Water's overall performance. In its representations on the draft determination 2006-2010, the Scottish Executive indicated that it would wish to use performance against the targets set out in the regulatory contract in assessing the performance of directors. Directors' bonuses are now linked to these OPA measures.

Appropriateness of OPA targets: the impact of competition

The Commission is introducing a licensing framework that will allow licensees to supply retail services to non-household customers. Accordingly, non-household customers will be able to choose a new retail supplier of water and sewerage services from April 2008.

This new framework will require us to adjust our use of the OPA to reflect the split between retail and wholesale activities. We will require an OPA that covers wholesale and household retail activities, consistent with the final determination, in order to monitor Scottish Water's performance after the separation of retail non-household activities in 2008.

We do not believe that this will prove to be difficult; we would continue to exclude from our OPA the percentage of bills to metered customers that are based on a meter reading (as opposed to an estimated reading, as there are very few metered household properties in Scotland). The elements of our current OPA that will be affected are:

- Percentage of billing contacts dealt with within 5 days;
- Percentage of written complaints dealt with within 10 days; and
- Percentage of telephone calls answered within 30 seconds.

The billing contacts measure would need to be removed from the OPA from 2008 (Scottish Water bills only very few households directly). This removal would reduce the targets for 2008-09 and 2009-10 in the final determination by around 7 and 9 points respectively.

Scottish Water will continue to be responsible for dealing promptly with household written complaints after separation in 2008. It will continue to handle calls from household customers. There will need to be minor changes in how these measures are defined but this would have no significant impact on the OPA score.

Non-household customers will continue to be protected by requirements placed on new licensed retailers to deliver a defined level of service when they charge the default tariff² (see information paper 10).

² In order to safeguard customers, it is our intention that all licensed providers will be obliged to offer the same default tariffs.

Updating the OPA and improving consistency with Ofwat

Bringing our version of the OPA into line with Ofwat's would strengthen our benchmarking comparisons. There are three areas where we are working to improve consistency with the OPA, as it is currently used by Ofwat.

These are:

- Pollution incidents;
- Assessed customer service; and
- Leakage targets.

Pollution incidents are not included as there is a difference in the definition of an incident between Scotland and England and Wales. We have worked with the Scottish Environment Protection Agency (SEPA) to resolve these differences by ensuring that the way in which Category 1, 2 and 3 pollution incidents are measured and reported in Scotland is brought into line with those used by the Environment Agency south of the border.

The measure 'assessed customer service' concerns the quality of customer service that is delivered in England and Wales. Ofwat does not publish information for the companies in England and Wales on 'assessed customer service'. Therefore performance in this measure cannot be assessed on a consistent basis. The measure is based on assessments of seven aspects of customer service, including complaint handling and services for disabled and elderly customers. The customer representative organisation in England and Wales, the Consumer Council for Water (formerly Water Voice), contributes to these assessments. To improve consistency with Ofwat we have asked Waterwatch to explore ways of incorporating an assessment of customer service similar to that provided by the Customer Council for Water in England and Wales. In view of the new licensing framework, this assessment would have to distinguish between household and non-household customers.

We have worked with our engineering advisors and the Reporter to ensure that leakage in Scotland is estimated on a basis that is consistent with England and Wales. We have agreed annual targets for leakage reduction with Scottish Water. From 2006-07, the OPA will take into account Scottish Water's performance against leakage targets.

In addition to the improvements above, there is a possibility that Ofwat may seek to revise the OPA to differentiate the level of service provided by the best companies. We will want to track Ofwat's plans for the OPA but we understand from Ofwat that any further development of the OPA will be made only after its 2009 price review. Since the base year for the draft determination will be 2007-08 any revisions by Ofwat would not affect our proposed approach.

Summary

We do not propose to continue to set both prices and targets for the level of service to be delivered. We believe that the assessment of performance could become much more complicated if we continued with this approach. At the 2010-14 Review, we propose to ask Scottish Water to indicate the costs incurred in improving levels of service to customers. We propose to use this information to assess the scope for efficiency, consistent with Scottish Water matching, by 2014, the performance of leading companies south of the border in 2007-08. This approach also ensures that we would not be immediately impacted by any changes that Ofwat decides to make to the OPA.

Related Documents

'The Strategic Review of Charges 2006-10: The draft determination', Volume 6, Water Industry Commissioner for Scotland, June 2005.

'The Strategic Review of Charges 2006-10: The final determination', Water Industry Commission for Scotland, November 2005.

Information note 07 'Customer Service: Overall Performance Assessment (OPA)', Water Industry Commission, 2006.