

Change Proposal Form	
Change Proposal Reference: CPW150	
Anything written between [] brackets can be deleted as appropriate. The footer and CP Reference will also need updating to match the change being discussed.	
Original Title	Changing the governance of the gap site incentive scheme guidance documents
Working Title	Governance of Incentive Scheme Guidance Documents
Date Raised	24/11/2023
Type	Code Change Proposal
Urgent?	No
<i>If Change is urgent, please fill out the Urgent Change table at the end of this document.</i>	
Is there a completed cost template attached? (If not fill in why not below)	No
Expected costs following implementation are not expected to change as this change just aligns the codes to current practices. If MOSL acted in compliance with the current market codes, the costs would increase by approximately £3000-£4000 per update.	

Change Proposer Details - required for all Change Proposals	
Name	Chris Dawson
Capacity to submit Change Proposal/Charging Change Proposal	Market Operator
Business name	MOSL
Change Lead Details - required for all Change Proposals	
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Assessment against Initial Acceptance Criteria	
If the problem statement matches any of the initial acceptance criteria below, it may not progress to solution development.	
The problem statement is incomplete or insufficiently clear on any of the following: Issue; Root cause of the issue; Actors involved in the environment of the problem; How the problem impacts the proposer customers and wider market; How the problem inhibits the delivery of MAC and WRC objectives and principles.	
The problem that is seeking to be addressed is not materially different from an active problem statement that has not yet been decided upon by the CCC.	
The problem statement concerns matters that are outside the scope of the MAC and/or WRC.	
The problem is being separately considered within the scope of an existing or scheduled improvement programme by the Market Operator.	
The problem is being separately considered within the scope of an existing or scheduled policy review by the Authority.	
<i>I have read the Initial Acceptance Criteria and accept that this Change Proposal will be assessed against these.</i>	<i>Chris Dawson</i>

Assessment against Acceptance and Prioritisation Criteria	
The CCC will apply the criteria below to decide whether the problem statement should be accepted into the code change process. This assessment will determine whether the change proposal should be taken forward for solution development and if accepted, over what timeframe, reflecting its priority relative to other changes.	
Evidence based problem - Is the problem statement sufficiently clear and presented with sufficient evidence to support the issue to allow the CCC to make a reasoned decision?	
Legislative or regulatory imperative - Whether the change is needed to meet a new or amended legal or contractual obligation imposed on the parties to the codes.	
Case for change - A judgement of whether the problem statement affects the WRC Objectives and remaining MAC and WRC principles, in effect the costs and risks to industry participants.	
High level drivers - A judgment to the degree that a change addresses a risk or issue identified in the market risk and issues tracker and the degree to which a problem is hindering the strategic market outcomes against the Strategic Panel Priorities	
End state - A judgement of whether the opportunity cost of developing a solution for the problem statement will likely be outweighed against doing nothing.	
<i>I have read the Acceptance and Prioritisation Criteria and accept that this Change Proposal will be assessed against these criteria.</i>	<i>Chris Dawson</i>

Summary of Change Proposal - required for all Change Proposals

Please explain the issue or defect this Change Proposal/Charging Change Proposal is seeking to address.
(?)

Gap Site Incentive Scheme (CPW082) introduced formal governance arrangements to ensure proper ongoing maintenance of the Gap Site Incentive Scheme. Wholesalers may choose to offer financial incentives for retailers to identify Non-Household (NHH) supply points which were consuming water but not registered in CMOS (known as Gap sites), but there was no standardised process amongst the wholesalers on the administration of the incentive which made it difficult for retailers to benefit from the scheme. A related change Vacancy Incentive Scheme (CPW083) was put in place to do the same for vacancy incentives offered by wholesalers.

As part of the CPW082 and CPW093 implementation, MOSL issued a guidance document which contained, among other things, the rates that wholesalers offer to retailers in exchange for identifying gap sites (found in Appendix 2 of the guidance document). This document was issued in April 2020 and has so far gone through 12 different versions. Most of these changes (10/12) have been either to update the scheduled rates for incentive payment as and when these wholesalers update their rates, or to opt into the scheme. The equivalent document for vacant sites was issued in May 2020 and has so far gone through 4 different versions with these changes primarily adding wholesalers who have opted into the scheme.

Each of these document updates has been made without the direct approval of Ofwat as the changes related only to the addition or amendment of wholesaler schemes in the schedules to the guidance. This is contrary to Wholesale-Retail Code (WRC) Schedule 1 Part 4 Market Terms section 4.19.5 which states that the Authority (Ofwat) must approve any changes to the guidance document.

Please provide evidence that there is a problem for this Change Proposal/Charging Change Proposal to address.

The standard price for following the standard code change process is roughly £3,750 and the two incentive scheme guidance documents have gone through 14 different versions in the three years since initial publication. If MOSL carried out all updates following the code mandated process, it would have cost £52,500 or roughly £18,000 a year. With this code change, 11 of these could have been done without any cost saving £41,250.

A standard code change also takes time to go through and the current code mandated process would mean the updated guidance cannot be published on the MOSL website until an Ofwat decision has gone through. If MOSL took it to Code Change Committee, who agreed to allow MOSL to recommend directly to Ofwat (which would be the quickest option), MOSL generally takes the assumption that Ofwat will take a minimum of two months to make a decision on any change. This would be significantly extended if

Ofwat deemed the change as a low priority. Overall, it would mean some of the guidance on the website would be three months out of date.

If a solution has been considered, Please describe the proposed draft solution of this Change Proposal/Charging Change Proposal and its nature and purpose. (?)

To address the primary problem, the draft solution would remove the requirement for Ofwat’s approval to update the Gap Site Incentive Scheme Guidance or Vacancy Incentive Scheme Guidance documents, and therefore would not need to be progressed through the code change process. Instead, for updates to the guidance documents that change whether a wholesaler is opted into the scheme, the rates they offer, or other housekeeping changes, MOSL would carry out the updates to documents and publish them directly. For all other, more substantive updates such as any further governance changes or the changes to the process itself, the standard code change procedure would be followed.

To address the secondary problem, the draft solution seeks to reassess the requirement for annual review of the Incentive Scheme Guidance documents by the Strategic Panel. This could either be the removal of the obligation for the Strategic Panel to review or the obligation is delegated to a Strategic Panel Committee or sub-group.

MOSL will consult on the above solutions, along with any other potential solutions, with both Ofwat and the Strategic Panel to ensure both are comfortable with the level of governance in any solution. The aim of these discussions shall be minimising the amount of review and oversight to publish updates. This would mean the cost and delay of publishing updates shall be reduced, addressing the main concerns of the problem statement.

Do you wish to be involved in developing a solution?

Yes

No

Please summarise how the experience and responsibilities of other market stakeholders will be impacted in implementing this Change Proposal/Charging Change Proposal. (?)

Note: this applies to TP/CCW/Panel (see eligible proposers listed in MAC) only

Stakeholders (?)	Current Experience	Post-Implementation Experience
Non-Household Customers (?) [MANDATORY]	No impact.	No impact.

Market Operator	MOSL currently is required to go through the Code Change process each time the documents are updated but is non-compliant with this.	The obligation to go through the Code Change process would be removed; ensuring MOSL compliance.
Retailers	Retailers look to the MOSL website for incentive scheme guidance, but guidance could be months out of date if MOSL followed current code defined practice. MOSL ignores the code defined practice to prevent this but is non-compliant.	MOSL will continue to update guidance in the most timely manner possible and the code defined practice will be updated to reflect this; making MOSL compliant.
Wholesalers	Wholesalers update their policies, but MOSL would take several months to publish this if they followed the code mandated process	The code mandated practice will be updated to ensure this is not an issue and MOSL can continue to publish policies in a timely manner.
Codes Panel	The Strategic Panel is required to review these documents annually, before September	The responsibility to review this document will be reassessed.
Market Authority (Ofwat)	All updates to the incentive scheme guidance documents must go through the standard code change process which requires Ofwat approval	The current plan is for all updates to wholesalers rates and opted in status will be made without Ofwat approval, all other changes continue to go through the standard code change process and require Ofwat approval. Other options will be considered, however.
Others (Code Change Committee)	The Code Change Committee currently must make a recommendation for Ofwat to approve all changes to incentive scheme guidance documents	The Code Change Committee will only have to make recommendations for Ofwat in the event of substantive changes if current plan is chosen; other impacts if other solutions are chosen.

The annual review of the incentive scheme guidance documents will be reassessed.

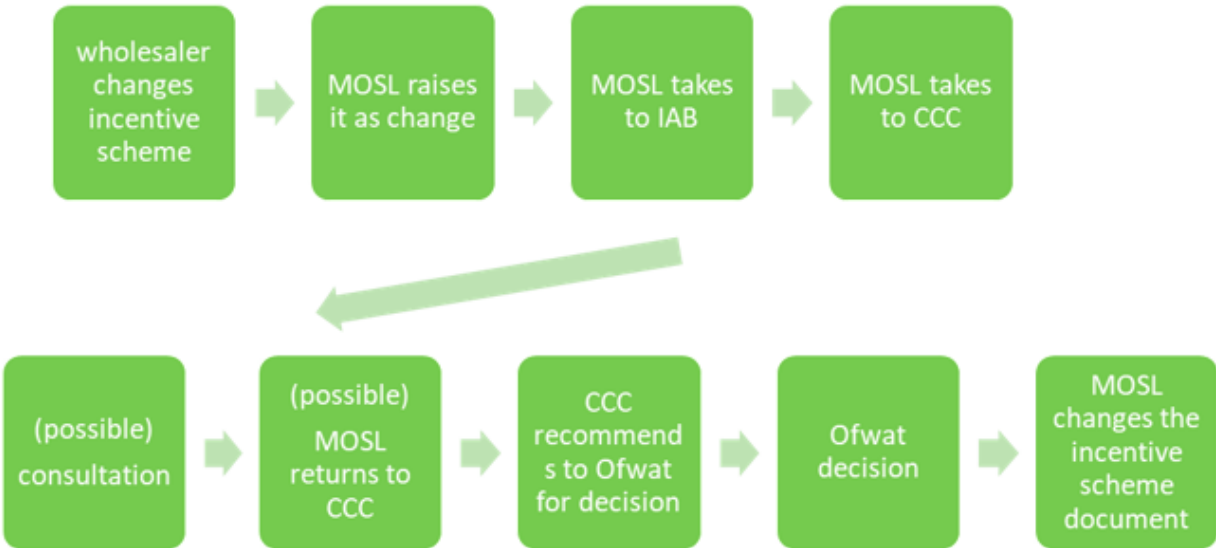
Further Information and Additional Comments – Optional

Please provide any further information that will support the development of this Change Proposal/Charging Change Proposal. Include references to related or supporting documents and consultations as required. (?)

This change seeks to drive efficiency and proportionality in the governance of the incentive scheme guidance documents by empowering MOSL to publish the policies of Wholesalers directly.

A pre-code change and post code change diagram can be found below:

Code mandated process (pre-code change):



Current (non-compliant) process for immaterial changes (compliant post-code change):



Objectives and Principles - required for all Change Proposals

Summarise how the following Objectives and Principles, as set out under Part A of Wholesale Contract Schedule 1 Part 1 are impacted by this Change Proposal (?) and/or as set out under Schedule 1 Market Arrangements Code Principles and Definitions, are impacted by this Change Proposal. (?) Explanations for each of these principles can be found at the end of this document.

Objective/Principle	Nature of impact	Detail of impact – MAC	Detail of impact – WRC
Primary Principle	No Impact (consistent)		
Continued development and sustainment of an effective market	No Impact (consistent)		
Seamless Non-Household Customer experience	No Impact (consistent)		
Resilience	No Impact (consistent)		
Transparency and clarity	Positive Impact	The guidance documents on the MOSL website will be quicker to update and the guidance well therefore not risk being 3-months out of date.	
Proportionality	Positive Impact	If MOSL is just publishing trading party policy, it would not be proportionate to go through the regular change process – it is not a contentious change, and therefore does not require oversight	
Efficiency	Positive Impact	MOSL can update the guidance documents without going to IAB, CCC and Ofwat if there change is only publishing trading party policy	
Non-discrimination	No Impact (consistent)		
Simple, cost effective and secure (WRC only)	No Impact (consistent)		
Business Terms Objectives (WRC only)	No Impact (consistent)		

Operational Terms Objectives (WRC only)	No Impact (consistent)		
Market Terms Objectives (WRC only)	No Impact (consistent)		
Market Led (MAC only)	No Impact (consistent)		
To support Innovation (MAC only)	No Impact (consistent)		

Case for Urgency - required for Urgent Change Proposals only

If the change is Urgent, please state which urgency principles apply and rationale. Supporting evidence may be included as an attachment to this Change Proposal form. (?)

Principle	Applicable	Rationale and Evidence
Could the issue have been reasonably foreseen?	Choose an item.	
Significant impact on a party, parties, consumers or other stakeholder.	Choose an item.	
Significant impact on the safety and security of the Central Market Operating System.	Choose an item.	
Party in breach of any relevant legal obligation.	Choose an item.	
Material and immediate risk of significantly impacting the development and/or operation of the business retail market.	Choose an item.	
Code modification is required to comply with/implement Law.	Choose an item.	

If the change is Urgent, please provide the date by which this change should be implemented and justification. (?)

Proposed Implementation Date	
Justification	

Appendix 1: Explanation of objectives and principles	Market Arrangements Code (MAC)	Wholesale-Retail Code (WRC)
Primary Principle	The Market Arrangements Code shall be maintained, operated and developed in a manner that best seeks to protect and promote the interests of, and participation by, existing and future Non-Household Customers.	The Wholesale Retail Code and arrangements established by or under the Wholesale Contract shall be maintained, operated and developed in a manner that best seeks to protect and promote the interests of, and participation by, existing and future Non-Household Customers.
Continued development and sustainment of an effective market	<p>The Market Arrangements Code shall, wherever appropriate, promote effective competition and the removal of, and shall not introduce unnecessary, barriers to:</p> <ul style="list-style-type: none"> • Efficient market entry, expansion and exit; or • Innovation that benefits Non-Household Customers and the environment, including innovative business modes; or • Development of competitive markets within the water sector in England and Wales. 	<p>The Wholesale Retail Code and arrangements established by or under the Wholesale Contract shall, wherever appropriate, promote effective competition and the removal of, and shall not introduce unnecessary barriers to:</p> <ul style="list-style-type: none"> • efficient market entry, expansion and exit; or • innovation that benefits Non-Household Customers and the environment, including innovative business models; or • development of competitive markets within the water sector in England and Wales
Seamless Non-Household Customer experience	The Market Arrangements Code shall be maintained, operated and developed in a manner that seeks to deliver a seamless experience for the benefit of Non-Household Customers in relation to the Areas of Wholesalers and as between Areas in England and Wales;	The Wholesale Retail Code and arrangements established by or under the Wholesale Contract shall be maintained, operated and developed in a manner that seeks to deliver a seamless experience for the benefit of Non-Household Customers in relation to the Areas of Wholesalers and as between Areas in England and Wales.

Appendix 1: Explanation of objectives and principles	Market Arrangements Code (MAC)	Wholesale-Retail Code (WRC)
Resilience	<p>The Market Arrangements Code shall be consistent with the Resilience Objective, including by promoting Trading Party and Non-Household Customer participation in measures to:</p> <ul style="list-style-type: none"> • manage water resources in sustainable ways, to maximise efficiency in the use of water and reduce demand for water so as to reduce pressure on water resources; and • Improve the environmental sustainability of the Sewerage System. 	<p>The Wholesale Retail Code and arrangements established by or under the Wholesale Contract shall be consistent with the Resilience Objective, including by promoting Trading Party and Non-Household Customer participation in measures to:</p> <ul style="list-style-type: none"> • Manage water resources in sustainable ways, to maximise efficiency in the use of water and reduce demand for water so as to reduce pressure on water resources; and • Improve the environmental sustainability of the Sewerage System
Transparency and clarity	<p>The Market Arrangements Code shall be clear, open and transparent, including the activities of the Panel and the Market Operator, and be complete, concise, clearly expressed, well-structured, unambiguous and readily accessible to both existing and prospective Trading Parties</p>	<p>The Wholesale Retail Code and arrangements established by or under the Wholesale Contract shall be clear, open and transparent, including activities of the Panel and the Market Operator, and be complete, concise, clearly expressed, well-structured, unambiguous and readily accessible to both existing and prospective Trading Parties.</p>
Proportionality	<p>The Market Arrangements Code shall be proportionate to the size of the Competitive Market in England and Wales. It shall allow for the creating of provisions to promote proportionate change which delivers the greatest value for existing and future Non-Household Customers.</p>	<p>The Wholesale Retail Code and arrangements established by or under the Wholesale Contract shall be proportionate to the size of the Competitive Market in England and Wales and proportionate within the context of the Objectives. They shall promote proportionate change which delivers the greatest value for existing and future Non-Household Customers.</p>

Appendix 1: Explanation of objectives and principles	Market Arrangements Code (MAC)	Wholesale-Retail Code (WRC)
Efficiency	The Market Arrangements Code shall ensure the efficient, economic and effective administration, governance and operation of the Competitive Market so far as impacted by it.	The Wholesale Retail Code and arrangements established by or under the Wholesale Contract shall ensure efficient, economic and effective administration and operation of the Competitive Market, so far as impacted by them, and shall promote the efficient administration of the Market Terms by the Market Operator.
Non-discrimination	The Market Arrangements Code shall not unduly discriminate, or create undue discrimination, between any existing or prospective Parties or group of such Parties.	The Wholesale Retail Code and arrangements established by or under the Wholesale Contract shall not unduly discriminate, or create undue discrimination, between any existing or prospective Parties or group of such Parties.
Simple, cost effective and secure (WRC only)		The Central Systems and processes established by or under the Wholesale Retail Code should be as straightforward as possible (whilst being capable of development over time) and should contain appropriate data integrity and security controls
Market Led (MAC only)	The Market Arrangements Code shall enable and promote market participants to drive innovation and change that will create value for existing and future Non-Household Customers.	

Appendix 1: Explanation of objectives and principles	Market Arrangements Code (MAC)	Wholesale-Retail Code (WRC)
<p>To support Innovation (MAC only)</p>	<p>The Market Arrangements Code may enable such processes and procedures for the promotion and investment in innovation and change which will create value for the English and Welsh water and sewerage sector and grow its capacity to innovate, enabling it to better meet the evolving needs of customer, society and the environment as consented to by the Authority.</p>	