CEO Forum workshop summaries

23 November 2022

MOSL
MARKET OPERATOR SERVICES LTD

Workshop format

- Following the CEO Forum presentations (see recording on webpage) attendees were split into six groups to explore two different questions (see slides 3 and 7)
- The playback of the group discussions is available on the main recording. The recordings of the breakout groups have not been published externally
- A summary of the feedback and key messages from the groups is available in this slide pack
- The breakout group discussions were introduced and facilitated by member of MOSL's Senior Leadership Team.

Breakout 1

Is there a value proposition for small customers?

- 90% of customers state that water bills make up less than 5% of their annual running costs
- Small customers in Group One, subject to price caps, make up about 70% of retailers' cost base
- Regional incumbents continue to account for 94% of the market by supply points and 92% of revenue
- The difference between Economic Insight's assessment of actual historical retailer running costs and the amount allowed by Ofwat under its proposals, translates to a gap of 33%

Workshop 1 Group 1 – summary of feedback

- Need to question legitimacy of market if customers don't have choice
- Group one customers create overheads for incumbent retailers – squeezing them further
- The REC and margins do not move us away from a regulated market
- Smart metering is critical in terms of accurate bills (customer and retailer benefit) and leak detection (customer and wholesaler benefit) BUT proportion of NHH premises' have hard to read, hard to access meters. There is smart metering benefits case when it is 'efficient and cost effective' for certain NHH and household customers – 15-minute readings does not represent value for all
- For certain small customers there is a value in engaging with them – they are interested in different services but this is not the case for all – "there is a tranche of customers" they "would not want to take on under the current market economics"
- Some customers not economical to take on i.e., due to credit performance or harder to read the meters – structural challenges do not enable retailers to compete or want to take on these customers
- Risk of some NHH customers subsidising costs for the loss-making customers
- Tariff innovation – stymied by the overtype price caps
- Headroom needed to enable retailers to differentiate their products in terms of water efficiency
- Consumer view: Whether the customer represents value or otherwise doesn't mean they don't deserve a good service

Workshop 1 Group 2 – summary of feedback

- The market *has* to be made to work for small customers – doing nothing is not an option
- If we abandon small customers, why did we invest to enter the market in the first place?
- Small customers aren't a homogenous group – need to do further segmentation
- Driving competition is not easy – we need to be realistic
- Decisions need to be based on what customers actually want, not on assumptions
- Savings is a big driver of competition. We understand that there is no appetite to increase prices at the moment, but a roadmap to a future without price caps would, itself, help existing competitors and new entrants
- One of the biggest market inefficiencies is quality of data, but retailers are not 'masters of their own destiny' in this respect and wholesalers have no incentive to improve
- Ofwat recognises that from a "theoretical perspective" higher margins/savings are needed to attract customers, but sees a wide divergence in retailers' costs and inefficiencies and a lack of good customer service – which "isn't a function of the market structure."

Workshop 1 Group 3 – summary of feedback

- Question as to whether there is a genuine market for smallest customers – are we trying to force one where not a natural market?
- REC moving from regional to national caps – some retailers will have an even bigger squeeze with average cap lower than the cost to serve in their areas
- For a market we need willing buyers and willing sellers – currently we have neither
- Early years of Scottish market limited competition - 2010 price review saw reduction in wholesale charges which led to a rise in the retailer margin/headroom which saw a significant increase in competitive intensity and retailers entering the market
- Group one/small customers will be concerned about cost but more concerned at the time and effort dealing with water supplier (Iain Coucher reflection as a small business owner)
- Retailer using £100 p/a bill as an example - £92 goes straight to wholesaler pockets - £8 left for a retailer to serve customers (then retailer needs to deal with codes, read meters etc.)
- Retailers left with working capital cost with large interest that has to be funded in some way – its “no surprise” no one is trying to win these customers

Breakout 2

- **How do we best incentivise trading parties to meet obligations and improve customer service?**

- The priority for business customers remains reliable water supply (55%) followed by price (42%) The quality of customer service is among the most important aspects to just under a quarter of customers (23%)
- Organisations with a yearly water bill over £2,000 were significantly less likely to be satisfied with the service they receive
- Proposals to introduce a business retailer and customer measure of experience – through BR-MeX
- Amendments to the Retail Exit Code indicates a continuation of regulated prices for a significant proportion of customers in the NHH market
- Market Performance Framework Reform reviewing natural and regulatory incentives

Workshop 2 Group 1 – summary of feedback

- The economics of the market have to play a strong role in terms of incentivisation - performance incentives for wholesalers are very strong for HH but not for NHH
- Retailers need to be able to invest in their systems to deliver better customer services
- Worth encouraging standard processes (not about bilaterals) more standardised operational processes and metering quality could be useful
- Need more work to understand why Group one customers are less keen to engage and assess what would be a realistic level of engagement - assuming that all small consumers should engage in a successful market is probably flawed
- It is more sensible (and easier operationally) to treat these customers as household customers
- We should incentivise wholesalers and retailers to work together to better understand water demand (including metering).
- We should resist the idea that all wholesalers are the same, they will have different drivers - should be a reputation aspect and a financial incentive aspect (both are included to some extent in ODIs) - the size of the ODIs is not even significant compared to the size of capital investment needed to maintain water supply.

Workshop 2 Group 2 – summary of feedback

- View that in developing a central data cleanse it is essential that the data is then effectively maintained – risk of investing in cleanse and in a short space of time the data would be poor again
- Trading parties should take responsibility and ownership for their own data
- Wholesaler support for C Mex - organisations want to be at the top and this drives better customer outcomes, so felt positive about BR-Mex
- Team should be motivated by getting it right and saving time for the customer
- BR-Mex - concern that the customer may find it difficult to differentiate between the services of the retailer and the wholesaler and requested that this was fully worked through
- There was mention that Bilaterals, with details of the actions and transactions, would be helpful. (the pilot survey development was critical to making this a success)
- The room discussed how can we better understand customer motivations

Workshop 2 Group 2 – summary of feedback

- We need national smart metering framework across HH and NHH – wholesalers need to be thinking about NHH customers in their metering programmes
- Smart metering - what could we do with financial incentives around given areas i.e. water efficiency, management of waste
- Metering is the main priority in driving settlement accuracy - very supportive of smart metering policy
- The variability of wholesaler costs to do is off-putting -data import to retailer's own portal would be key
- Natural incentives can work where you align with the outcomes you're trying to create i.e. developer services - highly incentivised developers to invest in water efficiency and sustainable solutions and started to see some successes - but learning from that is that the scale of the incentive needs to be big
- Can we pilot more to see what works rather than starting with regulatory interventions? - create an environment where we could learn together and then put a framework around that to develop a more national approach
- Wholesalers aren’t ‘competitive’ or ‘competing against one another’ - could share across the wholesaler community what's working, what's not and but it still keeps the freedom from retailers then to apply their own competitive view of what would work for their customer base what would help retain customers and win customers