

## Change Proposal Form

Change Proposal Reference: CPM058 & CPW149

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	Market Performance Framework Reform
Working Title	Market Performance Framework Reform
Date Raised	19/12/2023
Type	Code Change Proposal
Urgent?	No

*If Change is urgent, please fill out the Urgent Change table at the bottom of this document.*

### Change Proposer Details - required for all Change Proposals

Name	John Gilbert
Capacity to submit Change Proposal/Charging Change Proposal	Market Operator
Organisation	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, 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, and 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 have read the Initial Acceptance Criteria and accept that this Change Proposal will be assessed against these criteria.*



### Assessment against Acceptance and Prioritisation Criteria

The CCC will apply its 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 have read the Acceptance and Prioritisation Criteria and accept that this Change Proposal will be assessed against these criteria.



### Summary of Change Proposal - required for all Change Proposals

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

#### **What is the Market Performance Framework (MPF)?**

The MPF is a group of mechanisms that govern, monitor, and incentivise Trading Parties to deliver a set of service standards to comply with the market codes. It is currently made up of Market Performance Standards (MPS) and Operational Performance Standards (OPS). Through these standards, the MPF aims to provide confidence to customers that:

- There is orderly operation of the market
- Trading Parties are incentivised to comply with their obligations
- The risk of non-compliance and any associated disbenefits are mitigated and managed
- Risks to the central systems are being managed and the performance of the market is being continually improved to ensure its orderly operation

The current MPF measures provide a view of specific steps in market processes and offer insight on whether tasks are being completed on time.

#### **What are the problems with the current MPF?**

It has been determined that the current MPF lacks:

<b>Problem</b>	<b>Problem highlighted by:</b>
<b>Limited direct links to customer outcomes:</b> Trading Party performance might improve, but customer outcomes do not necessarily improve as a result.	<a href="#">Economic Insights Report (2019)</a>
<b>Limited ability to hold Trading Parties to account:</b> The standards in the current MPF often penalise Trading Parties for a situation over which they have very limited control.	<a href="#">Ofwat's Call For Input (2018)</a> <a href="#">Ofwat's State of the Market Report (2018 - 2019)</a> <a href="#">Economic Insights Report (2019)</a>
<b>Neither transparent nor proportional:</b> Trading Party targets are not stretching enough, incentives not effective enough and information not shared readily enough with customers.	<a href="#">Economic Insights Report (2019)</a> <a href="#">Ofwat's Call For Input (2018)</a>

**Overly complex:** There are a host of MPS and OPS measures which are overly prescriptive and ineffective.

[State of the Market Report \(2018- 2019\)](#)

[Economic Insights Report \(2019\)](#)

For further information please see the [Full Outline of the Case for Change](#).

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

### **What evidence is there of these problems?**

#### Ofwat's State of the Market Report (2017-2018)

In its [first State of the Market Report \(2017-2018\)](#), Ofwat highlighted the following market frictions which resulted in sub-optimal customer outcomes:

- A lack of complete, accurate and timely market data.
- Poor aggregate performance of Wholesalers against the industry standards, which increases costs for Retailers.
- Poor communications between Wholesalers and Retailers, which leads to poor customer experiences and makes it difficult for Retailers to operate.

Ofwat concluded that the above factors acted as a barrier to engagement and awareness of the non-household market amongst customers, limiting its competitiveness. To address the issues outlined, Ofwat emphasised that both Wholesalers and Retailers must improve their performance against industry standards (MPF standards).

#### Ofwat's Call For Input (2018)

Following this, in November 2018, Ofwat issued a [Call For Input \(CFI\)](#) to identify the drivers behind the problems described by its [State of the Market Report \(2017 – 2018\)](#). The general consensus from Retailers who responded to the CFI was that the **MPF lacked effective reputational and financial incentives for Wholesalers to deliver high quality services to the non-household water retail market.**

#### Ofwat's State of the Market Report (2018 - 2019)

In its [second State of the Market Report \(2018-2019\)](#), Ofwat highlighted that the issues outlined in its first report had persisted, and that progress towards addressing them had been slow. Ofwat noted these problems affected customers and Trading Parties alike, and were the result, at least in part, **of an MPF which lacked effective reputational and financial incentives. As a result, Ofwat indicated that they welcomed the simplification of the current MPF, and a strengthening of its link to customer outcomes, emphasising that urgent action was required.**

#### Economic Insights: Roadmap for the Evolution of the Market Performance Framework Report (2019)

In 2019 the Market Performance Committee (MPC) commissioned an [independent review of the MPF \(conducted by Economic Insights\)](#), to discern to what degree it contributed to the problems outlined above.

The conclusion of the report was that the MPF lacked data, wasn't transparent enough, didn't ensure accountability or customer focus and in particular:

- Was not linked to customer outcomes.
- Did not set stretching targets.
- Lacked a 'public profile' to further incentivise good behaviour.
- Was overly complex.

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

### **Development of the Solution**

In 2021, the Panel asked MOSL begin a 'root and branch' review of the MPF, working with Retailers, Wholesalers and other stakeholders, including working closely with members of the Performance Advisory Group (PAG) - which includes representatives from Trading Parties, CCW and Ofwat - in the development of the reformed MPF.

#### **Consultations**

MOSL has run three consultations to date. The first, in October 2022, considered all MPF-related risks, issues and [Activities](#). Following stakeholder feedback, the second consultation, concluding in March 2023, narrowed this down to a 'longlist' of around 30 [Activities](#) and 100 [Metrics](#). In September 2023, MOSL asked stakeholders to consider a 'shortlist' of just 9 [Activities](#), around 50 [Metrics](#) and 8 intervention [Tools](#).

#### **Draft Solution**

##### **Principles of the Solution: MPF Design Principles**

The model below has been designed around these principles:

- Improved customer outcomes
- Improved Trading Party Accountability
- Supports Competition
- Consistency and Compatibility with Regulatory Regime
- Enduring and Agile
- Transparent and Proportionate
- Value for Money
- Simplicity

These design principles have been developed keeping in mind the problem statement and evidence outlined above.

##### **Model Development to Date**

The model outlined as of November 2023 can be found in [Strategic Panel 12 papers as Appendix 4B-Proposed Enduring Market Performance Framework](#). It details 9 Market [Activities](#), some applying

exclusively to Retailers, others applying exclusively to Wholesalers, and some the shared responsibility of both Trading Parties.

Around 50 different [Metrics](#) are detailed, including Key Performance Indicators (KPIs), Market Indicators (MI) and Additional Metrics, some of which will likely feed into Ofwat’s BR-Mex model.

8 [Tools](#) are also included, which include both [Standard Tools](#) and [Discretionary Tools](#). A governance structure defining governance levels (G)1 – 4 is outlined in section 9, which also covers new performance cycles, the scope and focus of which will be determined with input from the [market risk and issues tracker](#).

High level guidance underpinning the mapping of [Metrics](#) to [Tools](#) and principles underpinning the development of the governance structure are also outlined.

Development Moving Forward

Moving forward, aspects of the proposed model must be underpinned by robust reporting and monitoring systems which will require development and assurance. Furthermore, Trading Parties must understand the impacts of financial and reputational metrics in order to take these into account in their business planning. It is proposed that these aspects of the MPF model will be developed during detailed design will which ensure shortly as part and parcel of phase 2 of the MPF programme (phase 1 being the work produced to date, and phase 2 focussing on the implementation of the MPF reform work).

For further information regarding the terms used above, please see the [glossary](#) included as an appendix below.

Do you wish to be involved in developing a solution?

Yes

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

Stakeholders (?)	Current Experience	Post-Implementation Experience
Non-Household Customers (?)	<p>Customer outcomes are negatively impacted by the problems outlined above.</p> <p>Firstly, good performance against MPS and OPS standards does not imply good customer outcomes.</p> <p>Secondly, current incentives and targets are not stretching enough, meaning Trading Parties are not</p>	<p>Post implementation, customers will benefit from CPM058 &amp; CPW149 in that <a href="#">Activities</a>, <a href="#">Metrics</a> and <a href="#">Tools</a> will be explicitly tied to improved customer outcomes, given that they have been designed with this principle in mind.</p> <p>Additionally, the principles of “Transparent and Proportionate” and “Accountable” both contribute to</p>

	<p>incentivised to perform to a high enough standard.</p> <p>Additionally, some MPS and OPS standards fail to ensure the accountability of the responsible Trading Party.</p> <p>Aggregately, this prevents the market from delivering for customers and limits customer engagement with and awareness of the market.</p>	<p>ensuring that Trading Parties remain responsible to customers, and where they're not, effective incentives can be deployed to address this behaviour.</p> <p>This will ensure that not only is the reformed MPF tied to customer outcomes, but also that the standards of behaviour it sets are stretching, accountable and that incentives to meet these are proportionate.</p>
Retailers	<p>Retailers face high on-going costs of operation as a result of poor Wholesaler service offerings and performance within the market. This acts as a high barrier to entry into the market and contributes to the dampening of competitive outcomes.</p> <p>Additionally, standards are overly complex, making it difficult to improve performance in relation to them.</p>	<p>Post implementation, Retailers will benefit from stretching targets (for both Retailers and Wholesalers), and proportionate incentives that ensure accountability. Consequently, Wholesaler service offerings will improve, potentially reducing the operational costs Retailers face as a result of these.</p> <p>Additionally, Retailers will benefit from a reformed MPF that is simple, allowing them to improve performance in a focussed manner.</p>
Wholesalers	<p>Wholesalers are currently negatively impacted by standards that fail to ensure accountability; in that they charge Wholesalers for situations outside of their control.</p> <p>Additionally, standards are overly complex, making it difficult to improve performance in relation to them.</p>	<p>Post implementation, Wholesalers will benefit from stretching targets (for both Retailers and Wholesalers), and proportionate incentives that ensure accountability.</p> <p>Additionally, Wholesalers will benefit from a reformed MPF that is simple, allowing them to improve performance in a focussed manner.</p>

### 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. (?)*

MOSL has worked closely with members of the Performance Advisory Group (PAG) - which includes representatives from Trading Parties, CCW and Ofwat - in the development of the Proposed Enduring Market Performance Framework Model. This model has been subsequently presented to the Panel on the 9<sup>th</sup> November 2023, following which they approved the Proposed Model and Full Business Case. The Proposed Enduring Market Performance Framework Model and Full Business Case can be found [here](#).



## 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 – specify for MAC and WRC	
Primary Principle	Positive Impact	<i>See box to the right.</i>	CPM058 & CPW149 seeks to ensure that the reformed MPF has proportionate incentives aimed at accountable Trading Parties, for Activities that are explicitly tied to improved customer outcomes.
Continued development and sustainment of an effective market	Positive Impact	<i>See box to the right.</i>	CPM058 & CPW149 seeks to promote effective competition and reduce barriers to entry, solving problems identified in <a href="#">Ofwat’s first State of the Market Report</a> , by reforming the MPF, a root cause of this problem uncovered in the <a href="#">2018 CFI</a> .
Seamless Non-Household Customer experience	Positive Impact	<i>See box to the right.</i>	By explicitly linking <a href="#">Activities</a> , <a href="#">Metrics</a> and <a href="#">Tools</a> to customer outcomes, CPM058 & CPW149 incentivises Trading Party behaviour in relation to these, and therefore has a positive effect on customer experiences in the market.
Resilience	Positive Impact	<i>See box to the right.</i>	CPM058 & CPW149 will introduce new Market Activities (See Activity 8 in

			<a href="#">the proposed enduring model</a> ) specifically tailored towards incentivising water efficiency within the market.
Transparency and clarity	No Impact (consistent)		
Proportionality	Positive Impact	<i>See box to the right.</i>	CPM058 & CPW149 will introduce stretching targets and effective reputational and financial incentives, ensuring that high risk issues are treated with an appropriate sense of urgency, and ensuring Trading Parties face incentives effective enough to change their behaviour accordingly.
Efficiency	Choose an item.	<i>See box to the right.</i>	CPM058 & CPW149 contributes to the efficient, economic and effective administration and operation of the Competitive Market, by replacing an ineffective framework.
Non-discrimination	No Impact (consistent)		
Simple, cost effective and secure <u>(WRC only)</u>	No Impact (consistent)		
Business Terms Objectives <u>(WRC only)</u>	No Impact (consistent)		
Operational Terms Objectives <u>(WRC only)</u>	No Impact (consistent)		

Market Terms Objectives ( <u>WRC only</u> )	No Impact (consistent)		
Market Led ( <u>MAC only</u> )	No Impact (consistent)		
To support Innovation ( <u>MAC only</u> )	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.	NA
Significant impact on a party, parties, consumers or other stakeholder.	Choose an item.	NA
Significant impact on the safety and security of the Central Market Operating System.	Choose an item.	NA
Party in breach of any relevant legal obligation.	Choose an item.	NA
Material and immediate risk of significantly impacting the development and/or operation of the business retail market.	Choose an item.	NA
Code modification is required to comply with/implement Law.	Choose an item.	NA

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

Proposed Implementation Date	NA
Justification	NA

#### Appendix 1 : **Glossary**

**Activities:** Market Activities that must be completed to achieve the Priority Market Outcomes defined by the Strategic Panel, and which address risk and issues which prevent the market from achieving these outcomes.

**Additional Metrics:** Data on these metrics is collected and monitored as appropriate. They do not correlate as closely with a trading party's performance as KPIs as there may be other drivers that affect them. However, they are useful to monitor as they may indicate areas of concern that need further investigation using discretionary tools, such as audits.

**Discretionary Tools:** Are used on a discretionary basis to help understand a trading party's underlying performance in more detail, e.g. explore the root cause for a company missing KPIs consistently.

**Key Performance Indicators (KPIs):** Primary metrics used to measure a Trading Party's performance in completing a particular activity. KPIs will combine with intervention tools (which can be financial or non-financial) to incentivise Trading Parties' performances.

**Market Indicators (MIs):** Metrics that help assess whether overall performance is improving across the market and that the KPIs and tools being used are proving effective.

**Metrics:** The metrics will support the tools to confirm the extent to which the activity has been completed (e.g., the league tables will represent qualitative metrics such as R-Mex).

**Standard Tools:** Are applied against all Trading Parties in an automated or semi-automated way at a defined frequency, regardless of performance.

**Tools:** The intervention tools which sit under intervention types e.g., Financial Interventions use tools such as fines, or rewards.

Appendix 2: Explanation of objectives and principles	Market Arrangements Code (MAC)	Wholesale-Retail Code (WRC)
<b>Primary Principle</b>	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.
<b>Continued development and sustainment of an effective market</b>	<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"> <li>• Efficient market entry, expansion and exit; or</li> <li>• Innovation that benefits Non-Household Customers and the environment, including innovative business modes; or</li> <li>• Development of competitive markets within the water sector in England and Wales.</li> </ul>	<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"> <li>• efficient market entry, expansion and exit; or</li> <li>• innovation that benefits Non-Household Customers and the environment, including innovative business models; or</li> <li>• development of competitive markets within the water sector in England and Wales</li> </ul>
<b>Seamless Non-Household Customer experience</b>	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.

<p><b>Resilience</b></p>	<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"> <li>• 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</li> <li>• Improve the environmental sustainability of the Sewerage System.</li> </ul>	<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"> <li>• 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</li> <li>• Improve the environmental sustainability of the Sewerage System</li> </ul>
<p><b>Transparency and clarity</b></p>	<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>
<p><b>Proportionality</b></p>	<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>
<p><b>Efficiency</b></p>	<p>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.</p>	<p>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</p>

		promote the efficient administration of the Market Terms by the Market Operator.
<b>Non-discrimination</b>	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.
<b>Simple, cost effective and secure (WRC only)</b>		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
<b>Market Led (MAC only)</b>	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.	
<b>To support Innovation (MAC only)</b>	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.	