

# Market Performance Framework

Performance Advisory Group – PAG20

5 July 2023

# Agenda – 2hrs (1000 –1200)

1	Welcome, Actions from previous meeting & Update	Chair	15 Mins
2	Worked examples update	Janet Judge	30 mins
3	Update on tools	Oli Robins	30 mins
4	APIs/Incremental improvements	Miles	15 mins
5	AOB	Chair	15 mins

## Required Outcome from today's PAG

- ◆ **Agree to take forward the worked example template with feedback from PAG**
- ◆ **Agree to take forward Metric criteria assessment on basis of criteria with feedback from PAG.**
- ◆ **Agree to take forward Tools assessment methodology**

## Actions from Previous Meeting (1 of 1) to be updated

NO	Action required	Action by	Action Date
19/01	MOSL to include potential consultation question along with the early sight of the information.	EJ	01/09/2023
19/02	Clarifications on the incremental improvements noting the code change process includes consultation and enquired how many code changes will be required.	EJ	01/09/2023
19/03	Maintenace and flexibility in Governance structure to be outlined	JG	26/07/2023

# MPF Reform Programme

19 June 2023

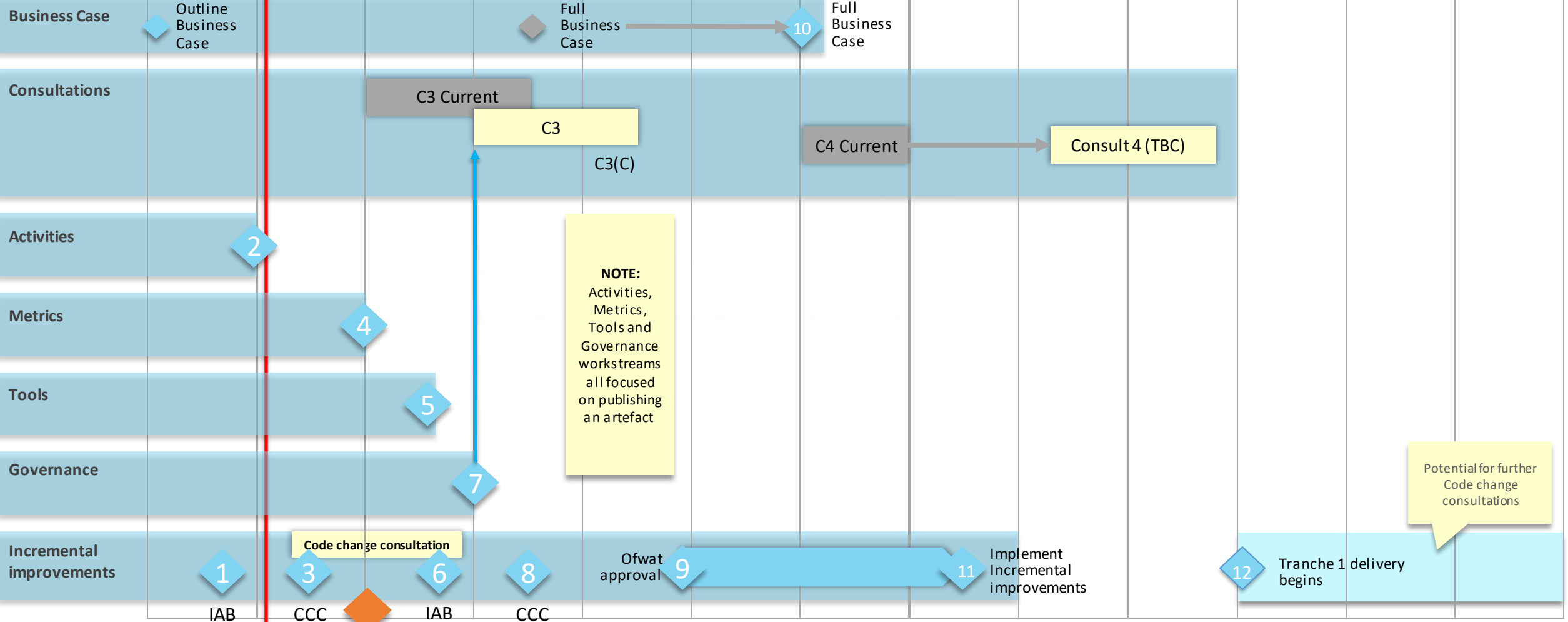


2024

Jun July Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun

Phase 1 - Design

Phase 2 - Delivery & integration



**NOTE:**  
Activities, Metrics, Tools and Governance workstreams all focused on publishing an artefact

Potential for further Code change consultations

Chair 10:15  
APIs endorsed by MPC

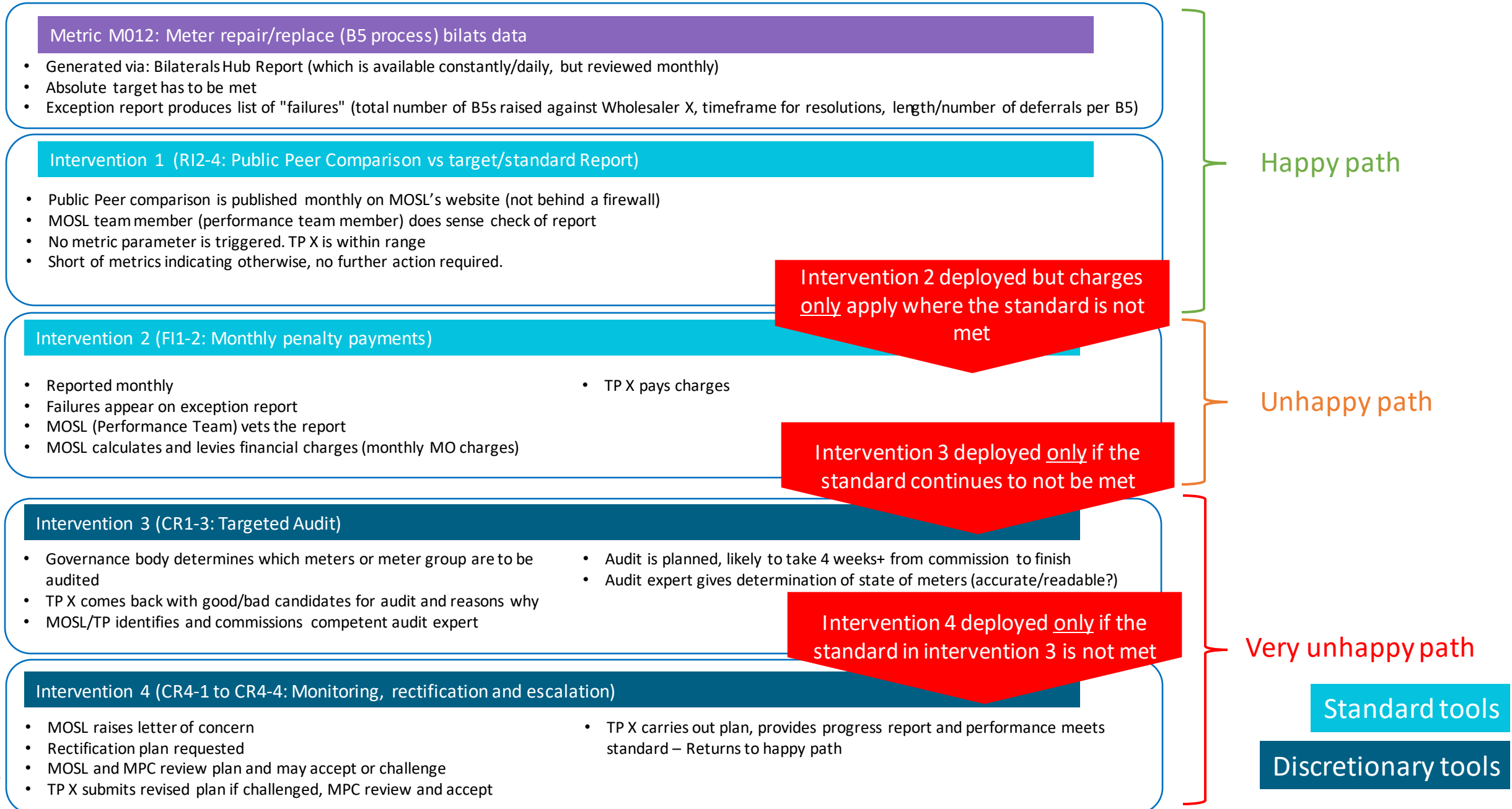
◆ = Milestone/Delivery output

# Worked examples update Outcome - For information

## Worked examples – Recap - purpose and logic applied

- ◆ To demonstrate how the new MPF could work in practice to measure performance against an activity including:
  - ◆ The proposed metric that could be used
  - ◆ The proposed tools that may be deployed to monitor and/or improve performance
  - ◆ Potential timeframes involved in the process
- ◆ Logic applied is:
  - ◆ In most cases **standard tools** are deployed and 'happy path' is followed
  - ◆ Where company performance is outside the acceptable range
    - ◆ **Discretionary tools** would be deployed in stages, giving Trading Party (TP) the opportunity to improve and return to the 'happy path'
    - ◆ MPF 'Governance body' would determine what intervention tools to deploy and when
- ◆ The timeline schematic shows potential timeframes involved in the intervention process

# Activity GS.9 Wholesalers efficiently maintain working/functioning assets, including meters which must be working accurately and be readable



## Happy Path

Standard Interventions	Public Peer Comparison													
	Penalty Payments													
Month 0	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12		

## Unhappy Path

Standard Interventions	Public Peer Comparison			Public Peer Comparison	Public Peer Comparison			Public Peer Comparison	Public Peer Comparison					
	Penalty Payments			Penalty Payments	Penalty Payments			Penalty Payments	Penalty Payments					
Month 0	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12		

## Very Unhappy Path

Standard Interventions	Public Peer Comparison	Public Peer Comparison										Public Peer Comparison			
	Penalty Payments	Penalty Payments										Penalty Payments			
Discretionary Interventions	Targeted Audit				Targeted Audit	Targeted Audit								Targeted Audit	
	Rectification & Escalation					Rectification & Escalation			Rectification & Escalation				Rectification & Escalation		
Month 0	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12			



## Worked examples update – PAG feedback

PAG Comment	MOSL response
<p>Some clarification on the application/calculation of the metric plus an early indication of the “absolute target”, or alternatively an indication of how the metric is likely to be converted to an overall monthly performance would be useful.</p> <p>Clarification on how penalty payments would be applied e.g. only applied to those cases outside the absolute target, payable until the case is resolved?</p>	<p>We are working on further details for metrics at the moment, including how we might protect against potential unintended consequences e.g. the risk of gaming. which could involve additional metrics .</p> <p>We need to determine the best way to present this information for consultation and how best to link it to or represent it in the worked example(s) but we won't be able to provide a target for consultation 3.</p> <p>Thank you for the comments/questions we received about metrics and application of tools/target which is great information to consider for requirements gathering.</p>
<p>I think the example highlights that Interventions can happen even if the TP is the best performer against the activity.</p>	<p>In the example all TPs would be subject to peer comparison tool. Further interventions would happen in the event of non-compliance or underperformance.</p> <p>We will need to carefully consider the setting of targets as part of the design phase</p>
<p>Some small presentational/formatting changes to the timeline schematic have also been suggested</p>	<p>Thank you for other presentational feedback - will consider this when producing next iteration.</p>

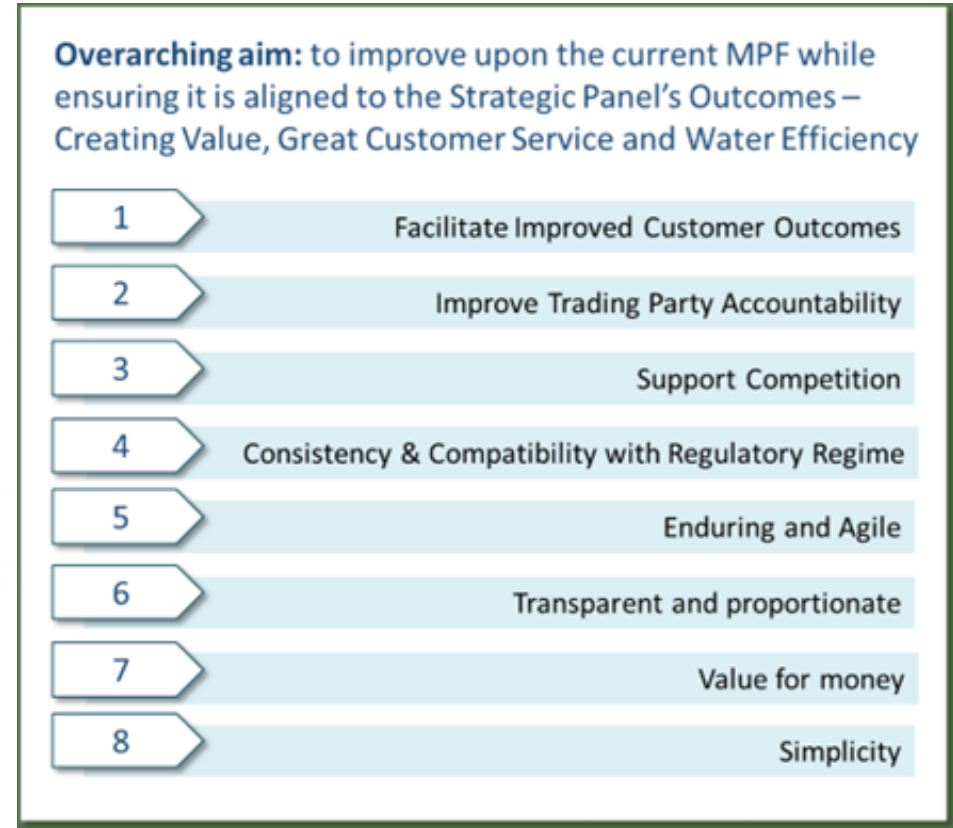
## Worked examples update – PAG feedback

PAG Comment	MOSL response
<p>Intelligence from an informal dialogue on performance may prevent an expensive audit.</p> <p>On the flowcharts on page 6, the relationship between the standard and discretionary interventions in the ‘very unhappy’ path might need more explanation. E.g. does four consecutive months of penalty charges result in the targeted audit being triggered? If so, is this the proposed trigger or is it purely illustrative?</p> <p>The metric MO12 as given and intervention 3 targeted audit (CR-3) last point don’t seem to fully correlate.</p>	<p>We are consolidating the number of tools and looking at what the combination of these might be.</p> <p>The poor performance/penalty payments are the trigger for audit but this is currently illustrative. As part of the governance process we'd need to determine how long poor performance continues before implementing discretionary tools.</p> <p>Content was more for illustrative purposes. Will work to make the finished example reflect what is likely to happen in practice.</p>
<p>A TP wouldn’t understand what makes an unhappy path or a very unhappy path.</p>	<p>Does PAG have suggestions on what we could do differently to help a TP understand what makes an unhappy path or a very unhappy path?</p> <p>Very unhappy path is where performance continues to be below the standard/target despite the application of standard intervention tools and discretionary tools are then deployed.</p>
<p>What happens if intervention 4 does not result in acceptable improvements? Is the next stage an escalation to Ofwat, and if so, what are the potential outcomes?</p>	<p>For some activities intervention 4 might be the top escalation, for others there may be further escalation. We will need to be clear on this in the worked examples</p>

# Update on tools Outcome – For information

## Approach

- Similar process to metrics work - using all consultation feedback to shortlist our candidate tools to sit above the initial focus activities and metrics of the reformed MPF.
- Tool selection based on alignment to overarching [MPF Reform Programme principles](#).
- Fundamentally, shortlisted tools must be **effective, clear and consistent**, and **provide value for money**.



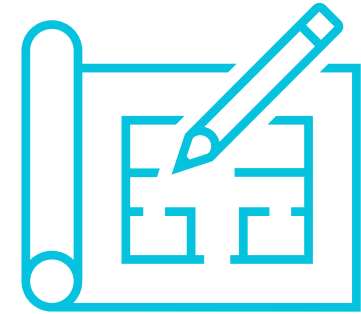
## Approach



~45 candidate tools initially shared for consultation feedback



Assessed against key criteria with reference to consultation feedback



12-15 tools selected for development

45



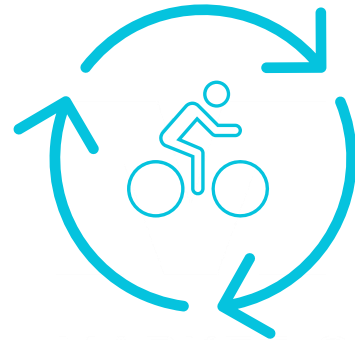
12-15

- ◆ Rationale regarding the degree to which each tool satisfies each criterion will consider SME input and specific consultation feedback. The results of the tool selection will be shared in due course for review.

## Standard vs Discretionary Tools

- ◆ The shortlist of tools will likely consist a range of both **Standard** and **Discretionary tools**

**Standard tools** will be deployed regularly on a defined cyclical frequency regardless of performance.



**Discretionary tools** are not deployed regularly but are available in the event of non-compliance or underperformance. They could be deployed in stages, and may be more targeted, flexible, creative.

- ◆ A well thought out combination will facilitate an MPF that is both **clear and easy to understand and plan to**, yet **adaptable, flexible, and responsive** when conditions require

## Early candidates to drop

### Any concerns about discarding the following for now?

Tool	Commentary
Primary charges discount	Significant push back in consultation. Intervention seems particularly complex in terms of first justifying, and rationalizing a formula for, a direct link between operational performance and wholesale charges to fulfil. Likely to create additional risk to those applying the intervention, and those impacted, which the benefits are unlikely to justify. Risks include additional bill complexity and uncertainty where Wholesalers may price potential for discounts into their tariffs and business operations, legal challenges and disputes, and knock-on implications on credit lodged and Wholesalers being appropriately covered.
Credit discount	As above, particularly with reference to Wholesalers not being appropriately covered in case of non-payment/failure.
Credit cover adjustment	As above.
Limitation of central systems access	Significant push back in consultation. May act as a disincentive for poor performance, but unlikely to help an underperforming party improve performance, and could inhibit recovery. Risk of legal challenge too, whilst practically, changing access to different components and features of CMOS and the Bilateral Hub (without the relevant party falling foul of any other requirements by being unable to follow codified process steps following the restriction) is unlikely to be quick or without risk.
Removal of voting rights	Significant push back in consultation on the democratic and legal precedent being set, with additional risk of alienating parties. Effectiveness as an incentive would also be negligible for parties who are not actively engaged.

# APIs/Incremental improvements Outcome – For information



## Incremental improvements

- What are 'incremental improvements'?
  - Tackles existing issues and anomalies in MPF, e.g. LUMs, OPS/MPS charges for bilaterals
  - Opportunity to bring forward benefits
  - Allows testing of governance
  - Supports other initiatives, e.g. metering, data cleanse, etc
- Timeline for change
  - Code Change Committee in July
  - Market Performance Committee in July
  - Code change consultation in July/August
  - Seek approval from Ofwat by November
  - Implement between Nov 2023 and Jan 2024.

### Aimed at:

#### **Improving accountability**

Stop charges for actions that are outside parties' control

#### **Maximising use of the hub**

Improve incentive on trading parties to always raise requests via the hub

#### **Ensuring requests are resolved**

Reduce number of bilateral requests deferred without having been resolved

#### **Addressing long-term issues**

Help support meter reading and reduction of Long Unread Meters

# Incremental improvements

## Objective:

### Improving accountability

Stop charges for actions that are outside parties' control

### Maximising use of the hub

Improve incentive on trading parties to always raise requests via the hub

### Ensuring requests are resolved

Reduce number of bilateral requests deferred without having been resolved

### Addressing long-term issues

Help support meter reading and reduction of Long Unread Meters

## Solution 1:

Removing low volume/low value performance standards and/or those that do not hold the right party accountable for actions.

Included:

- MPS 4 – Submission of new connection notice by accr. entity
- MPS 8 – Initial & final read submission by accredited entity
- MPS 9 – Initial & final read submission for private water or trade effluent

# Incremental improvements

## Objective:

### Improving accountability

Stop charges for actions that are outside parties' control

### Maximising use of the hub

Improve incentive on trading parties to always raise requests via the hub

### Ensuring requests are resolved

Reduce number of bilateral requests deferred without having been resolved

### Addressing long-term issues

Help support meter reading and reduction of Long Unread Meters

## Solution 2:

### Ensuring the right people are charged for the right activities!

Remove MPS18 & MPS19 charges for a retailer failing to read a meter, where there is an outstanding request for the Wholesaler to do so in the Bilateral Hub.

Bilateral processes considered:

- B5 (meter repair/replacement)
- C1 (meter verification/supply arrangement check)

Plus introduce monitoring of bilateral requests to support the implementation and correct behaviour.

# Incremental improvements

## Objective:

### Improving accountability

Stop charges for actions that are outside parties' control

### Maximising use of the hub

Improve incentive on trading parties to always raise requests via the hub

### Ensuring requests are resolved

Reduce number of bilateral requests deferred without having been resolved

### Addressing long-term issues

Help support meter reading and reduction of Long Unread Meters

## Solution 3:

Explore the use of *additional performance indicators (APIs)* that may be used to support other solutions and improvement programmes.

These APIs will be targeted primarily at supporting other incremental improvement solutions to ensure that timely resolution of requests within the Bilateral Hub

- Example API: **'Completed Tasks and Days Late'**: % of bilateral tasks that complete within prescribed SLAs and total 'task-days' beyond SLA (M013B)
- Example API: **'Deferred requests'**: Number and proportion of requests that have been deferred as a percentage of total raised (in current month and across a rolling 12 months) and average length of 'open' deferrals (M066+M010)
- These metrics will be worked through with Market Performance Committee, starting in July

# AOB Future meetings (1 of 1)

Meeting Date	Discussion / Introductions / Endorsements
PAG 21 – 26th July	<ul style="list-style-type: none"><li>⑩ Tools final cut (TBC)</li><li>⑩ Metric final cut (TBC)</li></ul>