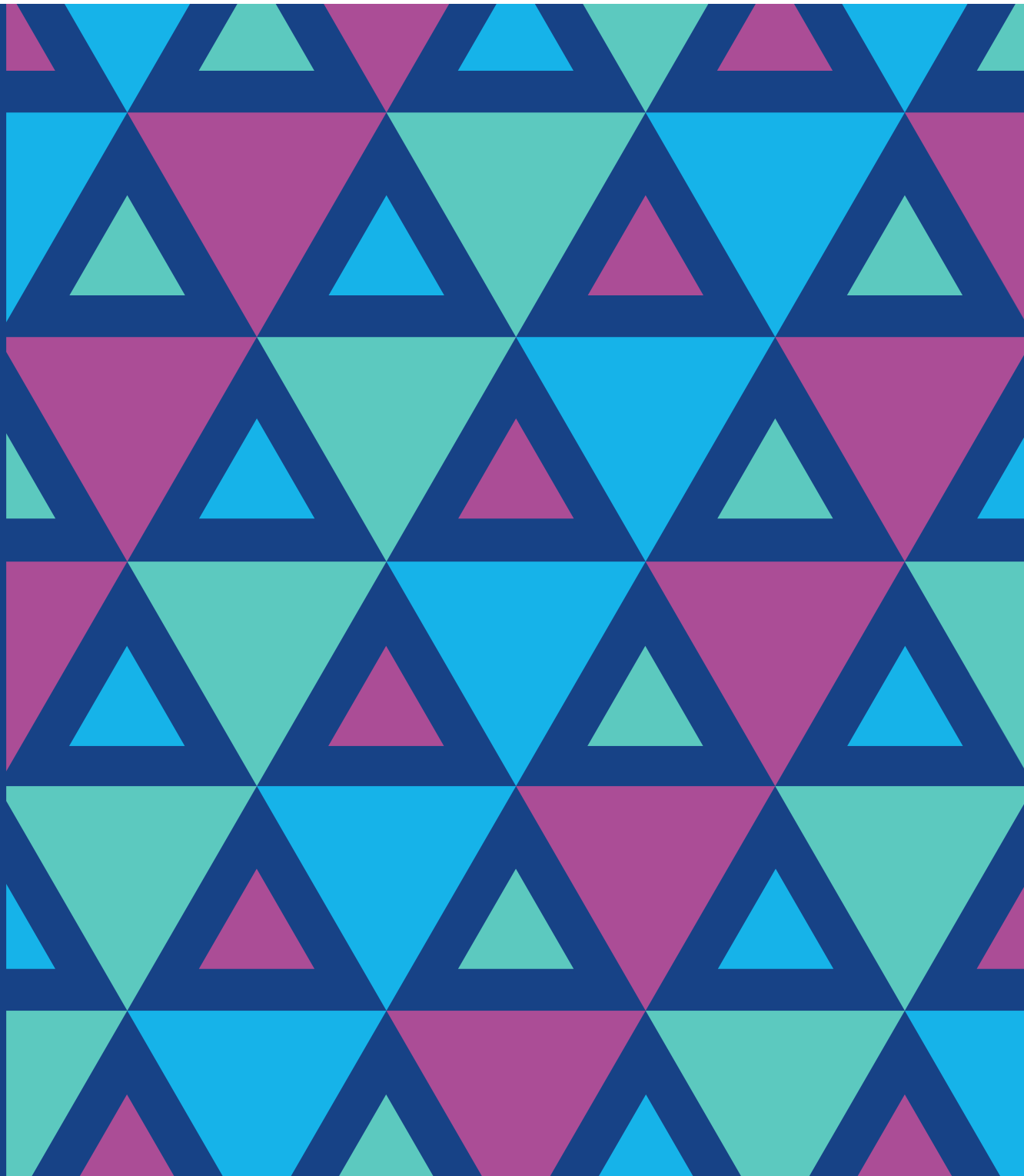


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# Alignment of Wholesale Tariffs with Retail Price Control Groups

Good Practice Guide

**RWG**



## Guide Summary

The purpose of this document is to outline the setup, schedule and ongoing requirements for aligning Wholesale Tariffs with the Retail Price Controls. It also addresses a number of queries that were raised in response to the May consultation.

[Consultation and Feedback](#)

[Schedule 1 – Set up Methodology](#)

[The Process – Good Practice](#)

[Schedule 2 – Ongoing Methodology](#)

### Headline dates for action – (See Schedule 1 for more information)

**10th November:** Wholesalers to submit the List of Information to Operations at MOSL.

**15th – 21st November:** Wholesalers to create new Tariff.

**22nd November:** Window opens to transfer SPIDs to new Tariff. Contact MOSL to arrange.



## Introduction

### Background and Document Scope

The RWG Wholesale Tariff Simplification Sub-Group was established in 2021 to explore options for Wholesale tariff structure harmonisation and simplification within the NHH Market, with the aim of reducing complexity and improving the efficiency of operation across the market.

Following some work done by PA Consulting to explore options for harmonising tariff bands, in May 2023 the Group consulted on (amongst other things) a proposal to more closely align Wholesale tariff structures with the Retail Price Control Customer Groups – see section below on ‘Consultation and Feedback’ for more information.

All of the Retailers and the majority of Wholesalers who responded were supportive of the proposal. **The RWG Tariff Simplification Sub-Group is therefore recommending that from 2024/25 Wholesalers introduce a tariff threshold at 0.5Ml, to align with the retail price controls.**

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## 1.0 Consultation and Feedback

### 1.1 The Issue

The Retail Price Control (contained in the Retail Exit Code (REC)) groups customers into 3 bands according to their annual consumption:

#### Group 1 – 0-0.5MI

#### Group 2 – 0.5-50MI

#### Group 3 – over 50MI

A different form of price control is applied to each Customer Group. The REC specifies price control levels for Customer Groups One and Two, and controls apply as a maximum allowed charge per customer, with consumption at eligible premises used to determine which Customer Group a customer falls into. Hence it is important that customers are allocated into the appropriate Group, to ensure that the correct price cap is applied.

Whilst CMOS effectively provides a central and controlled register of how SPIDs are allocated to Wholesale Tariff groups, there is no equivalent allocation of SPIDs to Retail Price Control Customer Groups. This has a number of consequences:

- 1) Inconsistent treatment: there is no definitive method for allocating SPIDs to a Retail Price Control Customer Group, or for monitoring and managing the movement of SPIDs between Customer Groups as consumption fluctuates. In the 2023 Charging Statements, Retailers are using at least four different approaches. This means it is unlikely that all customers are being treated consistently.
- 2) Undermines competition: there is no transparency in the market about which Retail Price Control Customer Group a SPID sits in and hence which Default Retail Tariff is being applied. This can make it difficult for competitive retailers to make informed price comparisons and may result in customers receiving inaccurate or confusing quotes.

### 1.2 The Solution

The recommended solution is to create a new Wholesale Tariff band threshold at 0.5MI. In the context of the study undertaken by PA Consulting for the RWG Tariff Simplification Subgroup looking at simplifying and harmonising Wholesale Tariffs, it was recognised that this issue could be addressed if all Wholesalers who don't already have one, introduced a volumetric threshold band at 0.5MI, for both water and sewerage. Whilst the Wholesale Tariff rate would be the same on either side of the threshold in order to maintain existing Wholesaler cost-reflectivity, as long as there were separate Wholesale Tariff Codes, it would allow SPIDs to be identified as either Retail Price Control Customer Group 1 or Group 2 in CMOS. This would provide the market with a consistent definition of Group 1 and Group 2 customers, which would be transparent and robust. This in turn is intended to facilitate Retailers' allocation of customers to customer group, and so help Retailers ensure that they comply with the REC.

The modelling done by PA Consulting indicated that there would be no incidence effects on customers from the creation of a new Wholesale threshold at 0.5MI.

We believe this applies to all Wholesalers with exception of Anglian Water, who already has a tariff threshold at 0.5MI.

For those Wholesalers who have tariffs that bridge 50MI/y, ideally they should also create a separate tariff code at 50MI (i.e. to separate retail Group 2 and Group 3 Customers), however, this is considered less important because there are far fewer customers at this level, and there may be incidence effects of doing it. Hence this is currently optional.

Appendix 3 provides responses to queries and alternative suggestions made in response to the consultation.

## 2.0 The Process – Good Practice

### 2.1 SPID Allocation Report

MOSL has developed a report that calculates the annual consumption of each SPID in the market, which is then used to allocate SPIDs between Retail Price Control Groups. The methodology used by MOSL is set out in Appendix 2.

MOSL will distribute the report through SharePoint on 6th November 2023. A file will also be created, titled 'REC Tariff Report'. Wholesalers will receive only the section of the report for their Wholesale region. Retailers will be able to see the whole report.

#### Amendments and Exceptions

Where a Retailer believes a SPID has been incorrectly allocated, the Retailer will use the new H3 (merged) process in the Bilateral Hub to make the correction in the same way as for any other tariff change. This functionality will be available from 12th December 2023. This will be easier than requiring each Wholesaler to secure the sign-off of multiple Retailers before implementing.

It is recommended that for good practice there will be a finite window for requesting corrections for this purpose of 4 weeks from the completion of transactions.

#### New Tariff Code Process

Schedule 1 to this document sets out the recommended steps to be followed to set up new tariff codes and to move customers onto the new codes, including where MOSL will be able to help. Schedule 2 sets out the recommended process to be followed for each subsequent annual update.

MOSL has no ability within the codes to be able to move SPIDs between tariff codes on behalf of TPs. MOSL will however support Wholesalers to process additional transaction volumes – see Schedule 1.

The intention is that the new tariff codes will be ready for use from 1st April 2024. **It should be noted that because the 'effective from' date of transactions cannot currently be set to a date in the future, the new tariff codes and the transfer of SPIDs onto the new code will require to be done during 2023/24.** As the tariff rates will be the same either side of the new threshold, there will be no commercial impact. The timings are set out in Schedule 1.

In order to reduce the number of SPIDs to be moved it is recommended that Wholesalers create the new tariff code for 0.5ML and above and move these customers over to the new tariff to save having to move the large percentage of customers who will sit in the 0-0.5ML banding. The upper threshold of the new band will vary by Wholesaler depending on the existing structure. For example:

- Where the current lowest Wholesale band is 0-5ML; the existing tariff code becomes 0-0.5ML and the new code is 0.5-5ML.
- or where the current lowest band is 0-50ML; the existing code becomes 0-0.5ML and the new tariff code is 0.5-50ML.

In each case, significantly fewer SPIDs would be required to be moved onto the new tariff code.

The same principle would apply where a Wholesaler creates a new tariff code at 50ML.

#### Application of the New Tariff Code Allocation

It is expected that retailers will use the allocation of SPIDs as the basis for the application of the price controls.

The exception is where retailers have been able to aggregate SPIDs belonging to the same customer, and where the aggregate consumption of the portfolio is greater than 0.5ML, is able to apply the Group 2 control. The same applies to the aggregation of Group 2 customers and the application of Group 3 control.

## 3.0 Schedule 1 – Set up Methodology

### 3.1 Process Steps

Wholesalers are asked to follow the below steps:

1. Submit the List of Information to Operations at MOSL through **MyMOSL**, by 10th November 2023. The List of information can be found in Appendix 1.
2. Create the new 0.5ML tariff, for example:
  - where existing Wholesale tariffs are 0-5ML; 5-20ML; and 20-100ML.
  - New bands would be 0-0.5ML; 0.5-5ML; 5-20ML; and 20-100ML+.
  - The existing 0-5ML tariff code becomes 0-0.5ML and a new tariff code is created for 0.5-5ML
  - In this example, it is suggested that the new Tariff code name would include the text '0.5-5ML'.
  - If a wholesaler is also creating a 50ML threshold, the same principles would apply.
3. A creation tariff window in CMOS will be open by MOSL from 15th to the 21st of November 2023.
4. Do not edit existing tariff descriptions (e.g. removing words/numbers such as 0-5ML). This should be done as part of the next annual tariff setting exercise for April 2024.
5. Identify SPIDs that have been allocated as 0-0.5ML and those 0.5ML and above using the MOSL report. Each report related to the individual Wholesaler will be uploaded into that Wholesaler's SharePoint site on 6th November. The report will be under the file name 'REC Tariff Report'.

6. Contact MOSL as soon as possible by raising a ticket in **MyMOSL** to MOSL IT, titled 'T143 RWG', to discuss and agree a timeline and your preferred method (e.g. LVI, MVI or HVI) to move SPIDs over. Please note MVI is limited, and agreement is required with MOSL, when transactions are above 5k per Month. Wholesalers can ask MOSL for additional volumes above the usual monthly limits as long as these are agreed in advance with MOSL. This collaborative approach will enable a schedule to be created to manage volumes across all Trading Parties and spread the impact and avoid last minute updates. For clarity, Wholesalers will be moving all SPIDs. MOSL will not be moving any SPIDs.

7. Move SPIDs above 0.5ML over in the agreed window. This way the majority will stay in the first tariff band and won't require the movement of as many SPIDs. This needs to be completed before February 2024 to avoid impacting the annual Tariff window.

8. Notify each relevant Retailer of the following:

- a) New Tariff Code for the SPIDs for which the Retailer is responsible.
- b) Estimated start and end date of their SPID reallocation process.
- c) Total number of SPIDs to be transferred.

9. Notify each relevant Retailer when the work is complete.

It is expected that retailers will use the allocation of SPIDs under the tariff update process as the basis for the application of the retail price controls.

## 4.0 Schedule 2 – Ongoing Methodology

### 4.1 The Report

MOSL will produce a report, as mentioned in Appendix 2 in January of each year, which in addition to estimating the annual consumption at each SPID and allocating each SPID to a Retail Price Control Customer Group, will also identify which SPIDs have moved between Groups since the last allocation.

Only SPIDs which have moved between Retail Price Control Customer Groups because of changes in consumption during the year will need to be moved in subsequent years.

### 4.2 Process Steps

Wholesalers are asked to follow the below steps:

1. Identify SPIDs that have moved between the Retail Price Control Customer Groups because of changes in consumption during the year using the MOSL report. Each report related to the individual Wholesaler will be uploaded into that Wholesalers SharePoint site. The report will be under the file name 'REC Tariff Report'.
2. Contact MOSL as soon as possible following receipt of the report by raising a ticket in **MyMOSL** titled 'T143 RWG' to discuss and agree a timeline and method (e.g. MVI) to move SPIDs over. Note that again, Wholesalers can ask MOSL for additional volumes above the usual monthly limits as long as these are agreed in advance with MOSL. This collaborative approach will enable a schedule to be created to manage volumes across all Trading Parties. For clarity, Wholesalers will be moving all SPIDs. MOSL will not be moving any SPIDs.
3. Move customers between the tariff codes as required.
4. Notify each relevant Retailer of the following:
  - a) New Tariff Code for the SPIDs for which the Retailer is responsible
  - b) Estimated start and end date of their SPID reallocation process
  - c) Total number of SPIDs to be transferred
  - d) Notify each relevant Retailer when the work is complete.



## Appendices

### Appendix 1

List of Information to be submitted to MOSL by Wholesalers

> **Wholesalers please complete highlighted section before submitting.**

0.5ML -50ML Tariff information requirements:

1. Whether the request is for a change (requiring a change to the Wholesale tariff document) or an error (an error was identified in CMOS data)
  - A Noncustomer impacting Change to the Wholesale tariff document.
2. Details of the issue that has led to the request.
  - RWG Good practice guide
3. The new tariff code requiring updates.

[Enter new tariff name here]

.....

4. The data field to be corrected.
  - n/a
5. The current incorrect value
  - n/a

6. What the value will be corrected to
  - n/a
7. The first invoice period affected (this sets out the tariff year or years for the window to be opened in)
  - 01/04/2023
8. The last invoice period affected.
  - n/a
9. All affected parties and when they were contacted.
  - Through RWG Tariff and MOSL communications
10. The date of contact regarding the error

[Enter date of submission here - on or before 10/11/2023 please]

.....

## Appendix 2 – MOSL Report Methodology

### Objective of the Report

To provide a consistent and robust methodology for allocating SPIDs between the Customer Groups used within the Retail Price Controls, based on their annual consumption.

### The Report

MOSL has produced a report, which effectively does two things:

- (i) Estimates the annual consumption at each SPID, based on historic consumption data; and
- (ii) allocates each SPID to a Retail Price Control Customer Group, based on this calculated consumption.

### Consumption calculation

The historic annual consumption for each SPID is calculated as follows:

The calculation for consumption banding is derived from MOSL's current settlement information. Each month the latest Settlement Report for each reconciliation, R1/R2/R3/RF, for the period one, three, eight and sixteen months (resp.) previous, is updated accordingly.

The consumption information obtained uses the best available view for the past 18 months. For the avoidance of doubt, this means MOSL will use two months of R1 (months 1 and 2), five months of R2 (months 3-7), eight months of R3 (months 8-15), and finally three months of RF information (months 16-18). If a SPID has entered the market less than 18 months before the calculation is run, MOSL will only use the available runs for that SPID. MOSL will use this information to determine the total consumption in the 18-month (or less) period. The rationale behind using 18 months of data instead of 12, is to get the 'better quality' data in, instead of basing over half of the consumption on R1 and R2.

Once MOSL has collated this information, the SPID Effective From Date is obtained and the number of days that have elapsed. This is necessary to normalise the consumption of SPIDs less than 18 months old (instead of just generically multiplying the 18-month figure by 2/3rds to a 12-month figure). Daily consumption for a SPID can then be obtained, and from there multiplied by 365 to obtain the annual figure. This figure is then used to categorise how the SPID fits into the Retail Price Control Customer Group.

This historic consumption is effectively used as the forecast for the next tariff year.

### Allocation of SPIDs to Retail Price Control Customer Groups

To avoid a position where a single premises could be designated Group 1 for its water service but Group 2 for its waste (or vice versa), a premises will be assigned to a single Customer Group, based on the consumption of its highest consuming service.

Where a premises is unmeasured, it is assumed to be Group 1.

Where a premises is vacant or has had a period of vacancy, allocation to a Group is based on consumption at the premises during the period. Hence if a premises has been vacant for part of a year, there is a risk that the annualised consumption will be under-estimated, and the site allocated to a lower Group. However, this would err on the side of caution, temporarily giving the customer greater protection than may be merited by a full year's consumption. If the difference is significant, Retailers will be able to amend the allocation through the new H3 (merged) process in the Bilateral Hub, during the recommended 4-week window.

The report will identify SPIDs in Group 2 (consuming 0.5-50Ml) and Group 3 (over 50Ml). All other SPIDs will be considered Group 1. The intention is that Group 1 SPIDs will remain on the existing Tariff Code and the applicable Group 2 SPIDs will be moved onto the new Tariff Code.

There is no grouping of SPIDs into customer portfolios. However, nothing in this report or process will prevent Retailers, where they have accurate data to do so, from aggregating Group 1 SPIDs belonging to the same customer, and, if consumption exceeds 0.5Ml in total, applying a Group 2 price cap to the consolidated portfolio.

### Subsequent years

The same report will be run ahead of each tariff year, and in addition to the original report, it will identify SPIDs which have moved from Group 1 into Group 2, and vice versa. It is only the SPIDs which have changed Group that will require to be moved from one Tariff Code to another, in the same way as happens now between existing tariff bands.

## Appendix 3 – Consultation

### Feedback and Clarifications

Several queries and suggestions were raised in response to the consultation. These are addressed below.

#### 1. Alternative solution – CMOS amendment

Several Wholesalers queried whether a more effective solution would be an amendment to CMOS to create a new (or re-use an existing) retailer-owned data item, identifying retailer price control Group.

- This option was explored with MOSL/CGI. It was established that there is no existing field that could be re-purposed, and the creation of a new field would require a CMOS system change and would not be possible ahead of 2024/25. A CMOS system change would be costly and would also require changes to retailer systems (and potentially Wholesaler systems).
- The recommended solution will be cheaper and meet the 2024/25 timescale.

#### 2. Number of transactions.

It was pointed out that around 80% of the SPIDs in the market (~2 million SPIDs) fall within the 0-0.5ML category and that the existing MVI process would not be able to cope with this number of transactions.

- Instead of moving the Group 1 SPIDs (i.e. those below 0.5ML) onto the new tariff code, the new tariff code should be created for the Group 2 SPIDs above 0.5ML and the next Wholesaler tariff band. For example, if the existing tariff banding is: 0-10; 10-50, 50+, the existing 0-10 would become 0-0.5ML and the new tariff code would be 0.5ML-10ML. This means the total maximum number of SPIDs to be moved onto new tariff codes would be ~500k.
- Nevertheless, this number may still exceed the monthly limit of 5,000 for individual Wholesalers, so MOSL will be able to help process transactions in bulk – Wholesalers should make the request once they know how many and which SPIDs require to be moved (see schedule 1).

#### 3. Within year changes and annual updates

Several Wholesalers raised concerns about the potentially excessive workload, the potential for Retailer/Wholesaler dispute and customer complaints if SPIDs are moved between tariff bands every time their consumption fluctuated.

- The intention is that any disputes to the initial allocation would be raised by retailers through the new H3 (merged) process in the Bilateral Hub. We recommend that this is done during a 4-week window, so as to avoid ongoing updates.
- Thereafter, it is intended that the assessment and allocation of SPIDs to Tariff Group would only happen once a year, so there would be no within year movements. This process would be the same as exists now when SPIDs move between Wholesale tariff categories.

Annual movement between Groups 1 and 2 (and vice versa) are expected to be about circa 2.7% of total SPIDs. As at point 2 above, MOSL will be in a position to help with any bulk transactions on request.

#### 4. Automated updates and transactions

It was suggested that ideally the calculation of each SPID's annual consumption and the processes for moving SPIDs between tariff bands would be done automatically, or in bulk by MOSL. These options have been explored with MOSL.

- Annual consumption calculation: MOSL will produce a report each year, to determine which Group SPIDs are allocated to. This ensures a standard, independent calculation. See Appendix 2 for the report methodology.
- Legally MOSL cannot initiate transactions, this can only be done by Trading Parties. Hence the process of moving SPIDs between tariff codes will require to be initiated by Wholesalers, although MOSL will assist with processing bulk transactions on request.

#### 5. Alternative solution – Retailer systems only

One Wholesaler suggested that retailers could use the MOSL report to update their own systems without the need for a CMOS based solution.

- Whilst this could be the case, it would not address the problem that there is no transparency in the market about a customer's Retail Tariff Group. The recommended solution would support a more competitive market.