

User Forum

MOSL

Online

Hosted by
Markus Lloyd & Simon Bennett
17 Jan 2024



Agenda

Item	Description	Who	Time
1	Introduction	Markus Lloyd & Simon Bennett	1500-1505
2	MOSL Business Plan	Steve Formoy	1505-1515
3	Change Process	Monica Falasca	1515-1525
4	Market Improvement Fund update Project DISCOVERY (Anglian Water and Artesia)	Jo Barnes and Artesia (Dene Marshall, Francesca Cecinati and Dave Gough)	1525-1605
5	Break		1605-1610
6	Scottish Water Smart Metering Strategy	Stephen McIntosh	1610-1625
7	Debate: credit support and CPW117 (reducing the amount of credit support in exchange for Reduced Notice Post-Payment)	Mike Swallow	1625-1655
8	AOB and Close	Markus Lloyd & Simon Bennett	1655-1700

Business Plan

User Forum update

Jessica Bryant
FP&A Manager, MOSL



Strategic Pr...

Priority & Outcome

Our strategic focus is to ...

Service Excellence

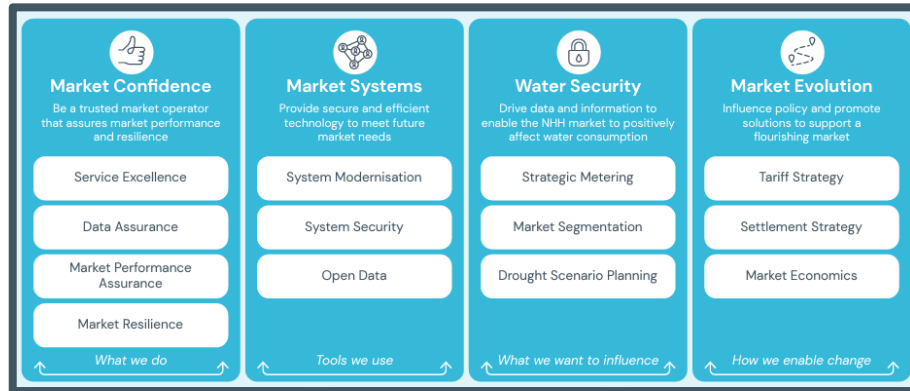
Data Assurance

Reformed...

Moving from Strategy to plan



Moving from Strategy to plan



Our business plan sets out how we will deliver...

Core Services
Continue to enhance quality and reliability

Improvement programmes
Year one priorities that drive value in line with our new strategy

Our Budget
Efficient and affordable charges at the right level of investment

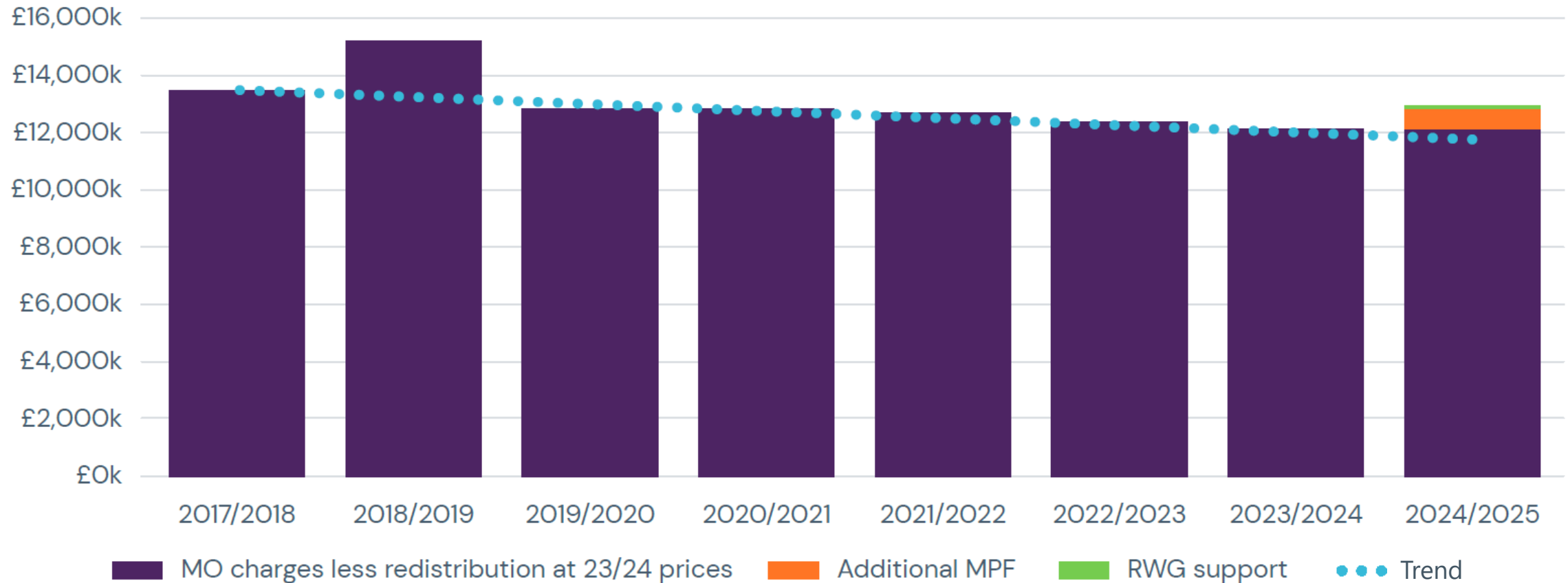
Forward view
How our long-term improvement programmes will deliver our strategy in years two and three



Set out against a strong track record that gives confidence we will deliver

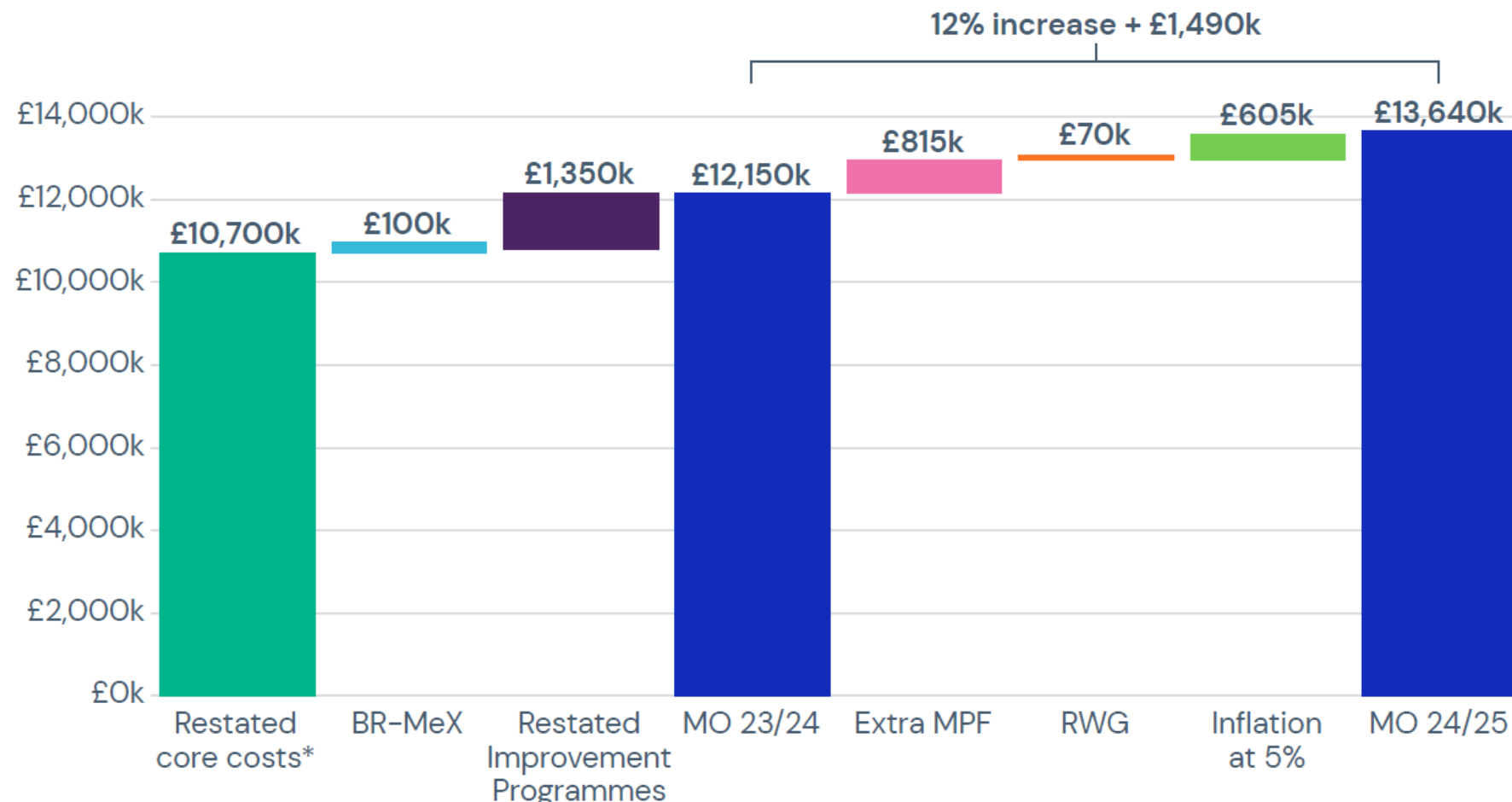
Efficient and affordable charges

Charges since market opening (real terms) £k



Our budget for 2024/25

Market Operator (MO) charges – all trading parties



Wholesaler only charges for Data assurance – additional £550k for 2024/25 – consistent with current year

Important dates



- 2024-27 Business Plan published for member consultation.
- The consultation will run from 15 January until 29 January.



- Consultation ends 29 January.



- We will take on board feedback from the consultation prior to publishing the final plan for **member voting**, expected 14 February.



- Annual General Meeting expected 29 February.

Changes

Monica Falasca
MOSL
January 2024



Change Proposals/Reports to table at CCC in the next 3 months* (1/2)



Reference	Title	Summary	Gate	CCC meeting date(s)
PIP186	Governance of Incentive Scheme Guidance Documents	Seeks to relax the obligation and allow MOSL to update the documents without Ofwat approval to reflect practice through a housekeeping change/simplified process change.	1	13 Feb 24
CPW142	Wholesaler Smart Meter Reads	Proposes that where an Advanced Metering Infrastructure (AMI) smart meter is installed at a premises, the relevant Wholesaler becomes responsible for market read submission into CMOS. Developed in the Strategic Metering Review roles and responsibilities workstream.	3	12 Mar 24
CPW148	Transfer Read Notifications for Outgoing Retailers	Seeks to enable CMOS notifications to the Outgoing and Incoming Retailers where there has been any change to a Transfer Read.	3	12 Mar 24

Change Proposals/Reports to table at CCC in the next 3 months* (2/2)



Reference	Title	Summary	Gate	CCC meeting date(s)
CPW139f	Bilateral Hub (Accredited Entities, Planned and Unplanned Events, additional enhancements pt1)	This will deliver processes B2, B4, B6, B8, B9, I2, I6, I9 and I12 - these processes are all metering activities, disconnections and reconnections carried out by Accredited Entities. They will be delivered as J1 and J2. Will also deliver processes D1, D2, D3, E1, E2, E3, E4, E5, E6, E7 around planned and unplanned activities. First phase of the delivery of additional enhancements (H1, B5, cancel info request, extension to the retention period).	3	09 Apr 24
CPM058 & CPW149 (a)	MPF Reform - Governance	Seeks to introduce 4 new levels of governance using which poor performance against performance indicators can be escalated. This will include the creation of the Performance Assurance Committee (PAC) and its terms of reference, to replace the Market Performance Committee	3	09 Apr 24

Awaiting Ofwat Decision*

Reference	Title	CCC Recommendation	Decision Due	Implementation Date
CPM054 & CPW145	Deductions and Withholdings under Dispute Process	Majority recommendation	10 Jan 24	16 Feb 24
CPW141b	Clarifying Meter Chamber Responsibilities	Unanimous recommendation	24 Jan 24	16 Feb 24
CPW132	Credit Support and Wholesaler Credit Ratings	Unanimous recommendation	1 Feb 24	1 Mar 24
CPW139e	Bilateral Hub (Miscellaneous)	Unanimous recommendation	15 Jan 24	13 Mar 24
CPM057	Late payment of MO charges	Majority recommendation	1 Mar 24	1 Apr 24

Awaiting Implementation*

Reference	Title	Central System Impact	Date of Release
CPW147	MPS18 & 19 clarification	N	18 Jan 2024
CPM055	CMOS Data Escrow	N	16 Feb 2024
CPW143	Wholesaler Maintenance of YVEs for NMMs	Y	10 May 2024

Implementations*

Reference	Title	Central System Impact	Date of Release
CPW139d	Bilateral Hub (Assessments)	Y	12 Dec 2023
CPW139c	Bilateral Hub (Dis/Re-connections)	Y	12 Dec 2023
CPM053 & CPW146	Change Process Improvements	N	18 Dec 2023
CPW144	Market Performance Framework interim improvements	N	18 Dec 2023



Market Improvement Fund

Project REDUCED

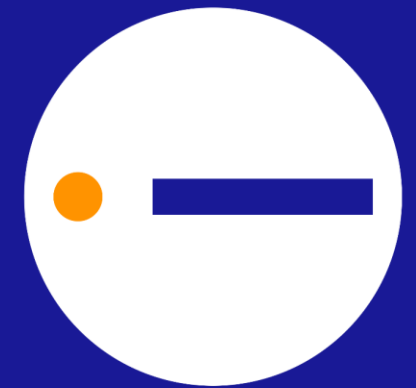


STRATEGIC
PANEL
& Committees

Project Discovery

Dave Gough, Francesca Cecinati,
Dene Marshallsay

MOSL User Forum,
17th January 2024



An introduction to Project Discovery

This presentation is about Project Discovery

Project Discovery is a MIF project

The MIF has been established to fund and deliver innovative projects that will benefit the NHH market and its customers.

Project Discovery set out to develop new segmentation methods with the aims of predicting non-household water consumption at a property level.

Anglian Water has led the project

A steering group consisting of several trading parties and MOSL was set up to develop the project specification and oversee the project over the past year.

Working with the steering group a team from Artesia have delivered the project and the outcomes.

The outcome is a new segmentation method and tool

This is called COCOA - **Commercial Consumption Analysis**.

This provides an improved understanding of water consumption across NHH customers by industry sector.

Which will assist wholesalers, retailers and customers by improving resilience against regional demand and supply deficit imbalances.

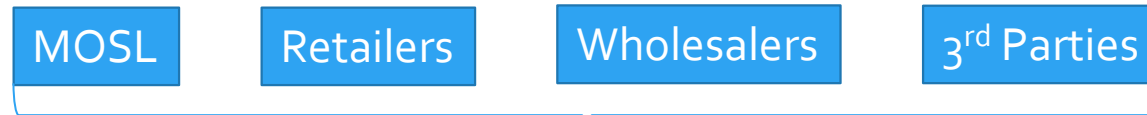
Describe COCOA

Demo the tool

Case studies

Project Discovery aimed to develop a commercial water use segmentation tool which improves the prediction of water consumption in non-household premises

The Market Stakeholders:



Would like to:

Segment customers

In order to:

Understand non-household water demand				
Consumption			Losses	
Domestic use	Process use	Products	Wastage	Leakage
People Practices & behaviours Infrastructure Weather	Economics Practices & behaviours Infrastructure Weather	Economics Practices & behaviours Infrastructure Weather	Infra-structure	Infra-structure External-factors Weather

How water is used:

Drivers:

Challenge:

Non-household water demand is complex and influenced by drivers that are difficult to predict.

Why?

The is no commercial water use segmentation system that is based on water consumption, this is needed for:

Benchmarking

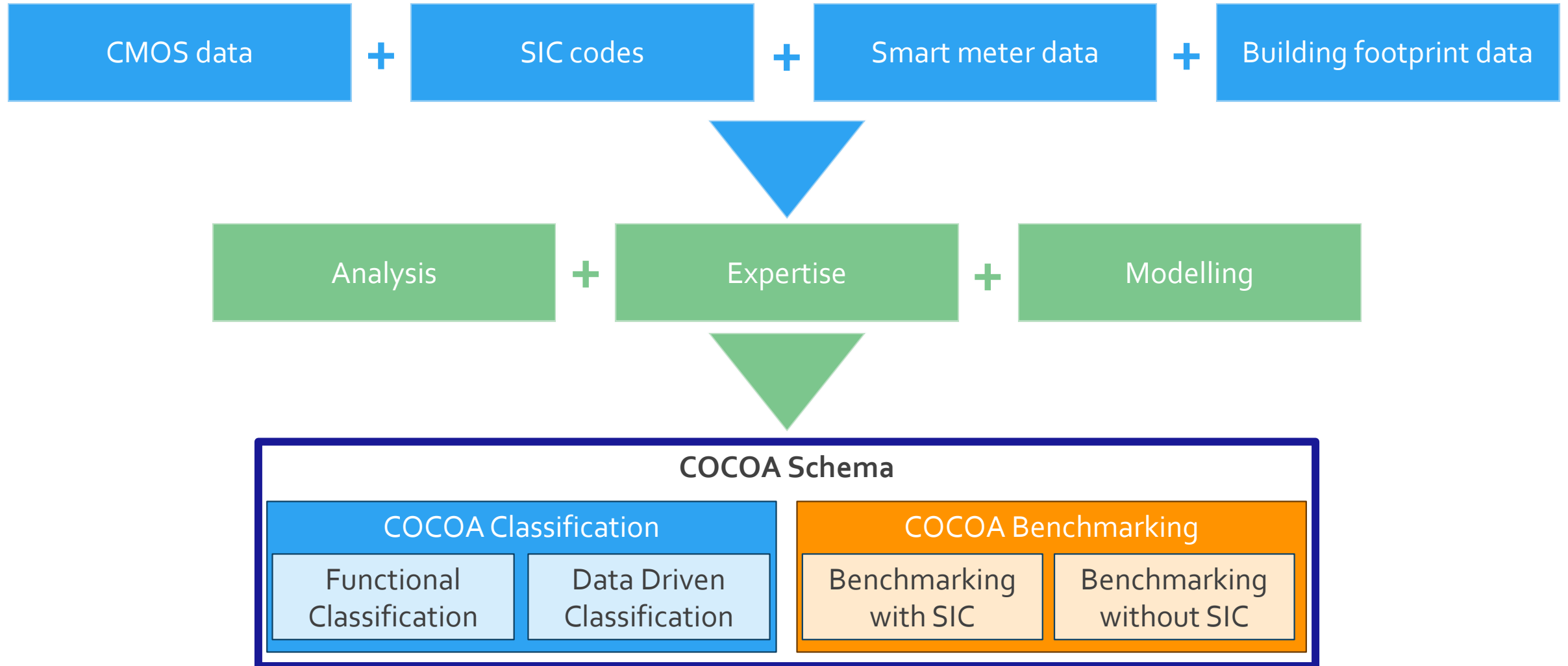
Water efficiency

Modelling water use

Demand forecasting

Development of COCOA Schema

COCOA was developed using a range of data, insight and expertise



With a few input values, COCOA produces an expected consumption for each property

Benchmark consumption

- Annual
- Monthly profile

Uncertainty

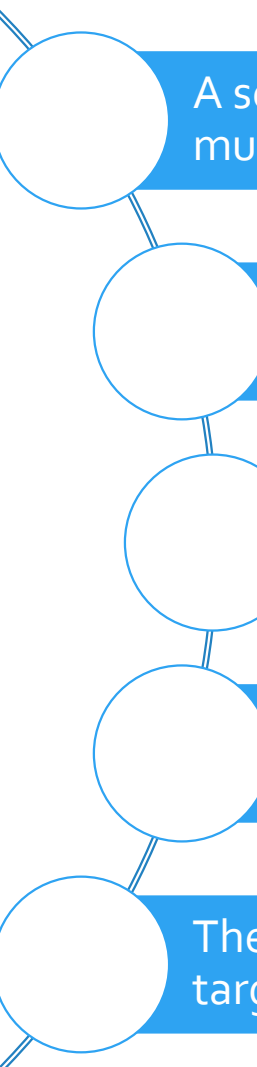
- Provides an expected range of consumption

Outlier flag

- Is the consumption higher than expected for this property?



The COCOA Schema provides a range of benefits



A schema developed specifically to classify non-household properties based on how they use water, when and how much

Looks across all categories, at a national level, without the need for direct contact with businesses e.g. surveys and field visits

Is free and accessible to a wide audience of stakeholders

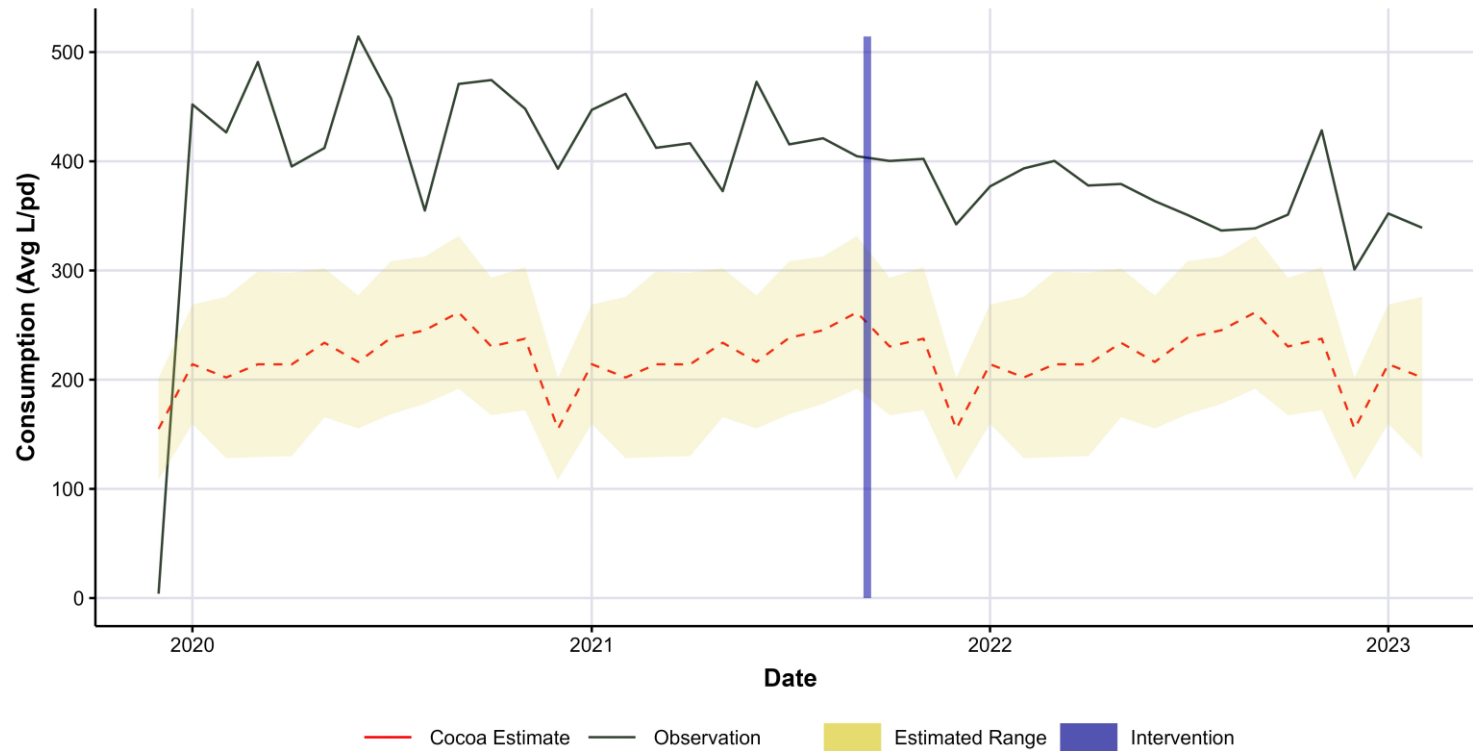
An excel tool has been designed with the end user in mind

The benchmarking system will provide users with opportunities to identify 'outliers' to help prioritise activities (e.g. targeted water efficiency interventions)

Case studies

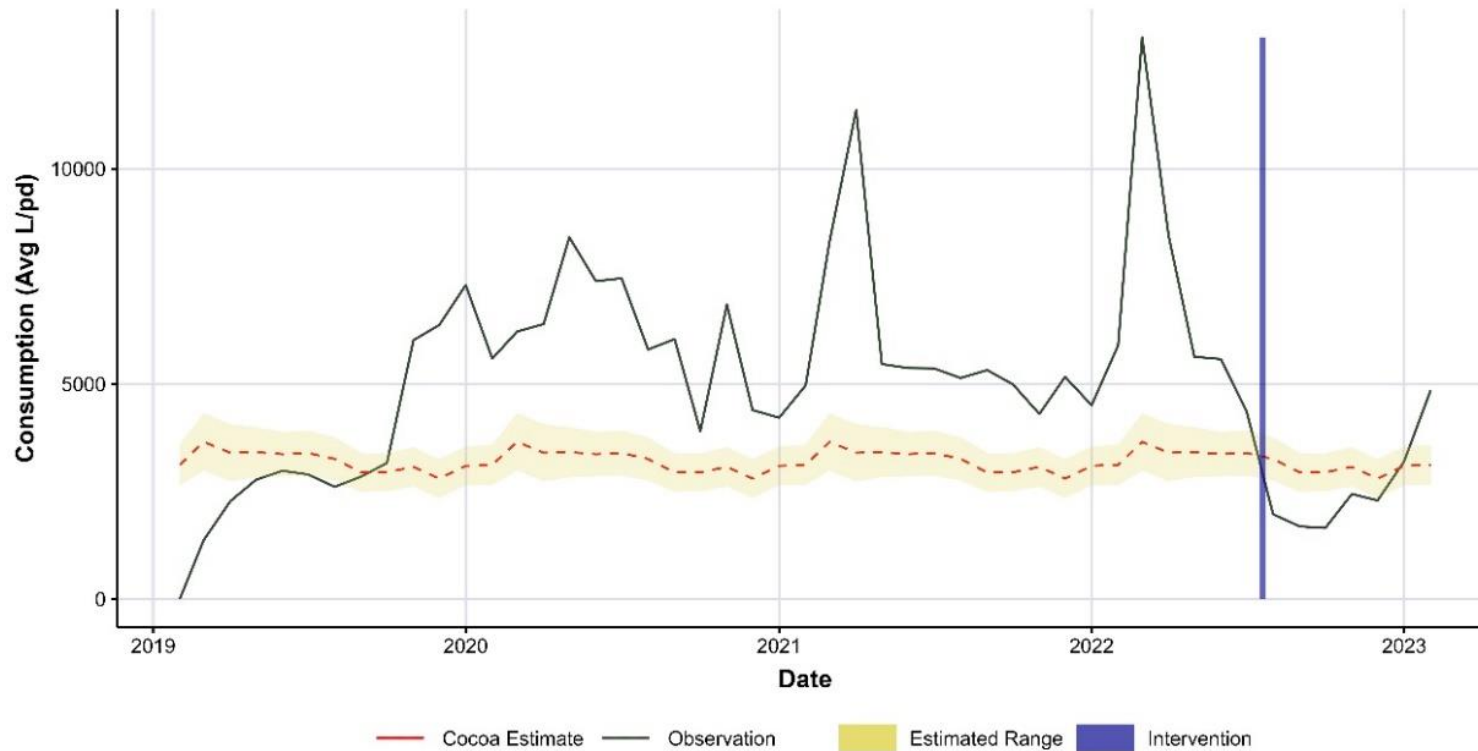
Case study 1

Case study	COCOA Functional Classification	COCOA data-driven classification	Outlier	Uncertain
Case Study 1	Depot	7	Yes	No



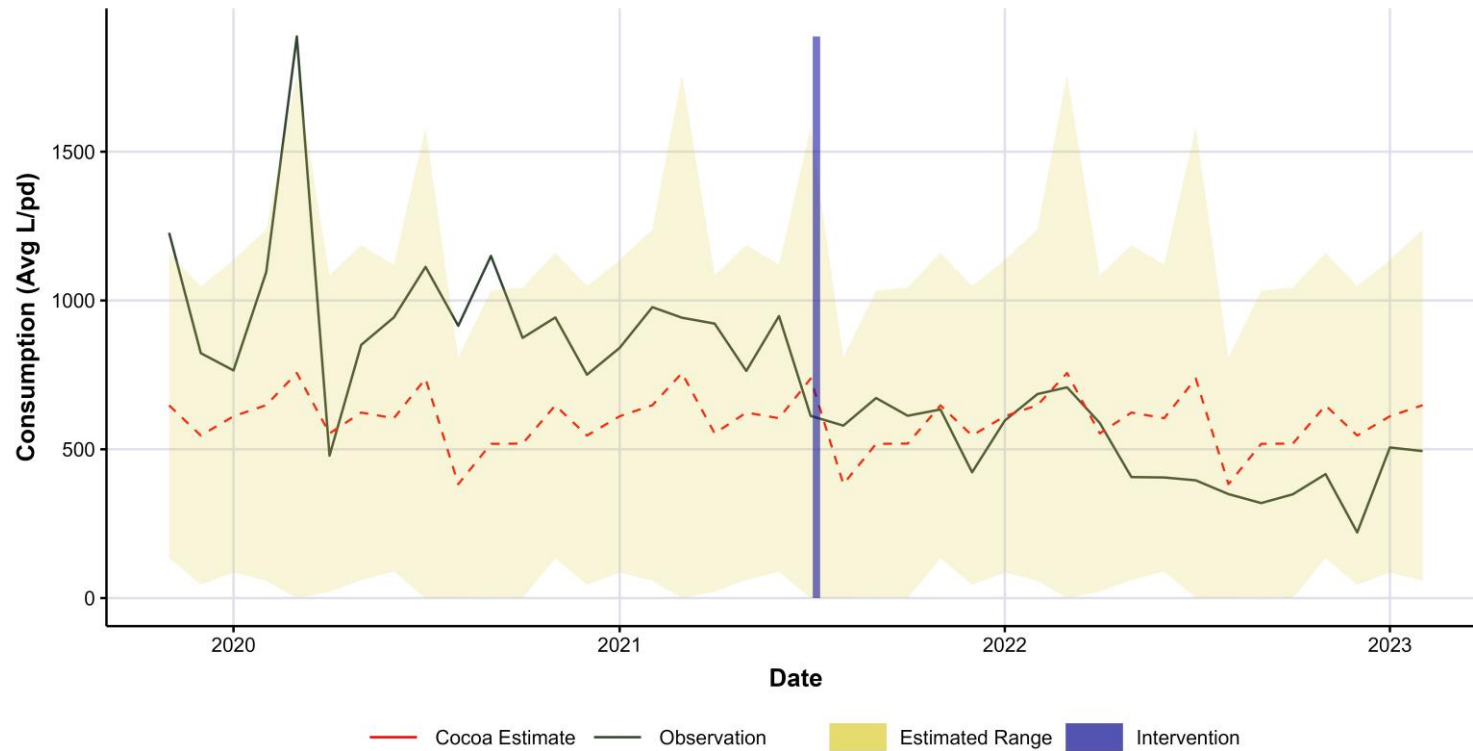
Case study 2

Case study	COCOA Functional Classification	COCOA data-driven classification	Outlier	Uncertain
Case study 2	Office	7	Yes	No



Case study 3

Case study	COCOA Functional Classification	COCOA data-driven classification	Outlier	Uncertain
Case Study 3	Soft manufacturing	4	No	Yes



Next Steps...

Next steps

- Full technical report to be published
- Excel spreadsheet published with report
- Would like people to use the tool, evaluate it and provide feedback
- We will set up a user group to review the feedback and identify improvements
- Investigate potential improvements such as:
 - using ABP data as an addition or alternative to SIC
 - using building height to complement floor area



Scottish Water's NHH Smart Metering Strategy

Our Journey so far

Stephen McIntosh

Market Data & Programme Manager, Scottish Water

January 2024

Smart Metering

MOSL User Forum

17th January 2024

Agenda

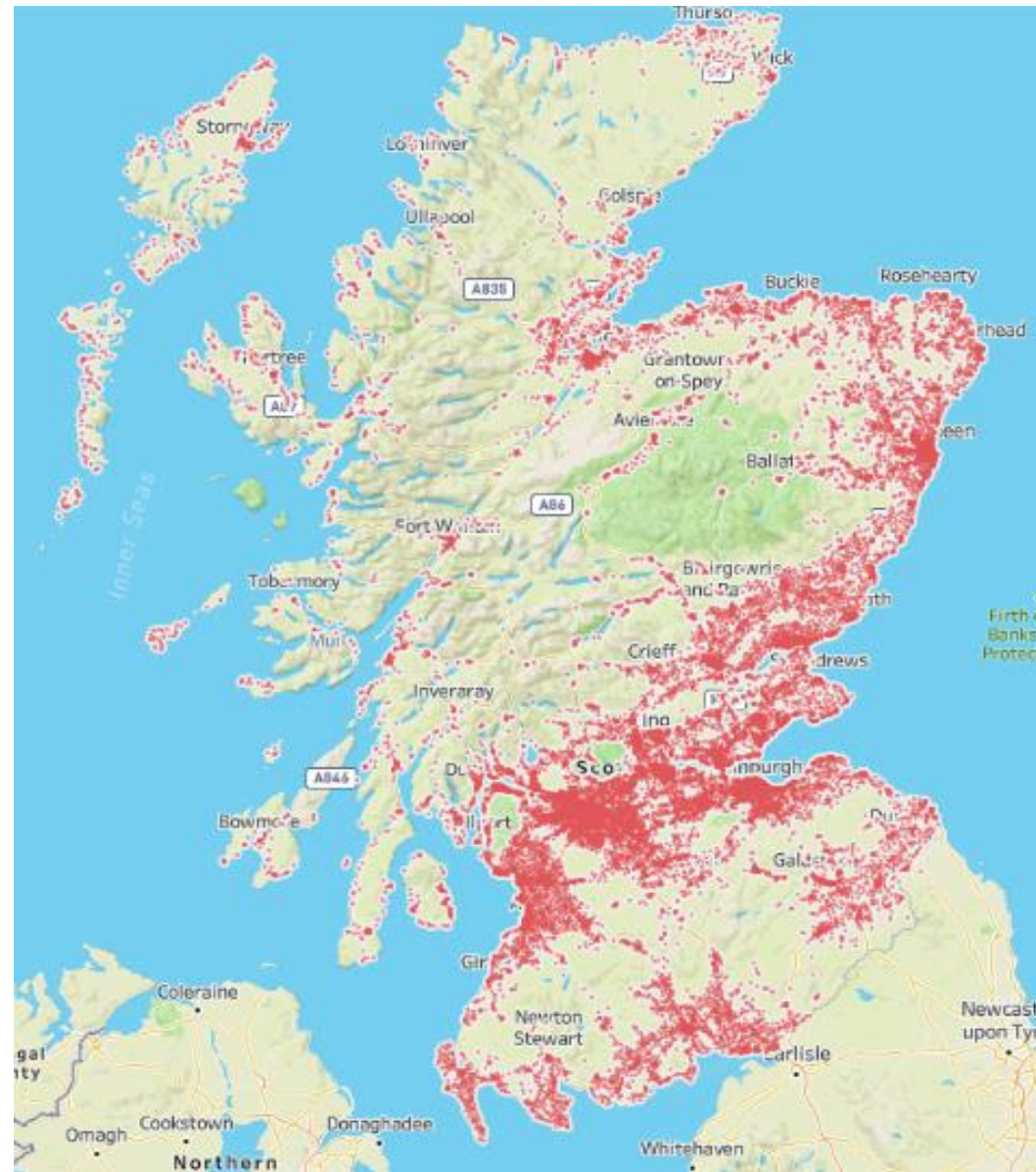
- Context
- Smart Metering Pilot
- Data
- Strategy
- Focus / Next Steps

Meter Context

Context

- SW monopoly wholesaler / asset operator
- 135k meters, 160k Water SPIDs, over 200,000 business customers
- Active meter replacement strategy – like for like “standard” mechanical meters, 12 year rolling cycle
- c24 active Licensed Providers read meters
- Mostly twice per year and large meters (>80mm) monthly
- Mix of Urban, semi urban, rural and island settings
- Mix of internal / external (below ground) meters
- Only 3-400 domestic meters
- Scottish Water offers meter options – no uptake

Meter Size	Count	% of Estate
15mm	68,331	50.56%
20mm	51,945	38.44%
25mm	9,304	6.89%
30mm	809	0.60%
40mm	2,076	1.54%
50mm	1,232	0.91%
80mm	1,189	0.88%
100mm	161	0.12%
150mm	77	0.06%
200mm	5	0.00%
300mm	9	0.01%
350mm	1	0.00%
450mm	2	0.00%
600mm	2	0.00%
	135,143	100%



Benefits for Customers and Scottish Water

Financial, Demand Management, Net-Zero and Customer Service benefits.

Financial

Non-domestic monitor

- SW can avoid costly investment.

Burst allowance

- Faster identification of bursts will reduce the amount of allowance SW will have to pay out annually.

Stoppers

- Faster identification of stoppers will reduce the amount of revenue SW loses each year.

Reducing continuous flow / customer side leakage

- Smart meter data will better identify continuous flow and allow SW to engage with customers.

Reduced interest

- More accurate settlements will reduce interest payments on "overcharges" SW pay to LPs.

Network instability – reduced longitudinal bursts


- Better understanding of the network enables improved management in anticipated fluctuations in demand.

Reduced leakage and improved resource efficiency

- Smart meter data allows SW to better target leakage.

Demand Management – Water Reduction and Resilience

Water

 Burst allowance

 Stoppers

 Reducing continuous flow / customer side leakage



Improvement in leakage targeting will lead to greater return in leakage reduction. There is no quantified water volume saving attributed to water leakage but the Economic Demand Modelling team are working towards a 50ML reduction. The team will not be able to achieve this reduction without smart meters.



Savings in water volume are in line with Scottish Water's strategic goals to take less from the environment and move to Net Zero. The volume of megalitres saved, particularly in priority zones where network capacity is a concern due to inward migration, resilience, water scarcity etc. will also facilitate deferred investment.

Net Zero



Avoided carbon – burst allowance



Avoided carbon – customer side leakage



Avoided carbon – stoppers



Avoided carbon – repairs



Avoided carbon – meter reads

Customer Service

Reputation



Improved customer service and satisfaction

Additionally, smart meters can help identify leaks and other issues quicker, leading to fewer disruptions for customers. The move from reactive to proactive maintenance should reduce the number of complaints/ requests and have a positive impact on customer satisfaction scores



Trust and brand reputation

By providing customers with transparent and accurate billing information, water companies can demonstrate their commitment to fair pricing and customer service. Additionally, the use of Smart Meters can help to reduce disputes and complaints, which can have a positive impact on the company's reputation

Smart Metering Pilot

Smart Metering Pilot

In December 2021 a Smart Metering pilot commenced aimed at testing the technologies to establish the feasibility of smart metering in different geographies in Scotland.

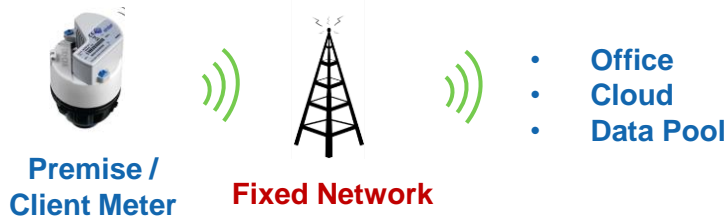
1 Purpose

- Test the various technology options
- Test network coverage and performance
- Test capabilities around data management
- Test organisationally what you need to manage the new technology, data, and processes
- Establish issues not previously identified
- Quantify benefits, establish if there are any additional benefits

2 Technology

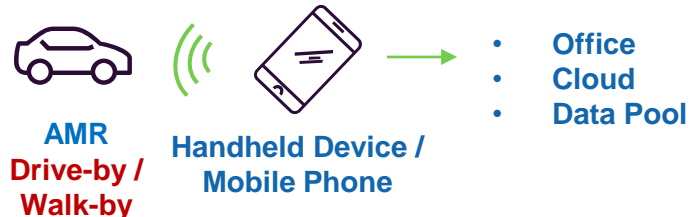
Advanced Meter Infrastructure (AMI)

Using technology to automatically transmit data from the meter via network communications back to base / cloud systems



Automated Meter Reading (AMR)

- Considered for areas where no network (AMI) coverage is possible
- Read is achieved by drive-by or walk-by using hand-held data collection (need to be "in range" of the meter or at the meter)
- Data is then sent back to base / cloud



3 Location



Inverness Supply Zone

- Area of significant growth
- Capacity constraints
- £40m+ investment planned
- NHH demand 5/6MI per day

Orkney

- Challenging geographical location

Area approach rather than cherrypicked asset approach

Stress test coverage and conditions

Establish what it takes to get to required penetration

Meters and Technology

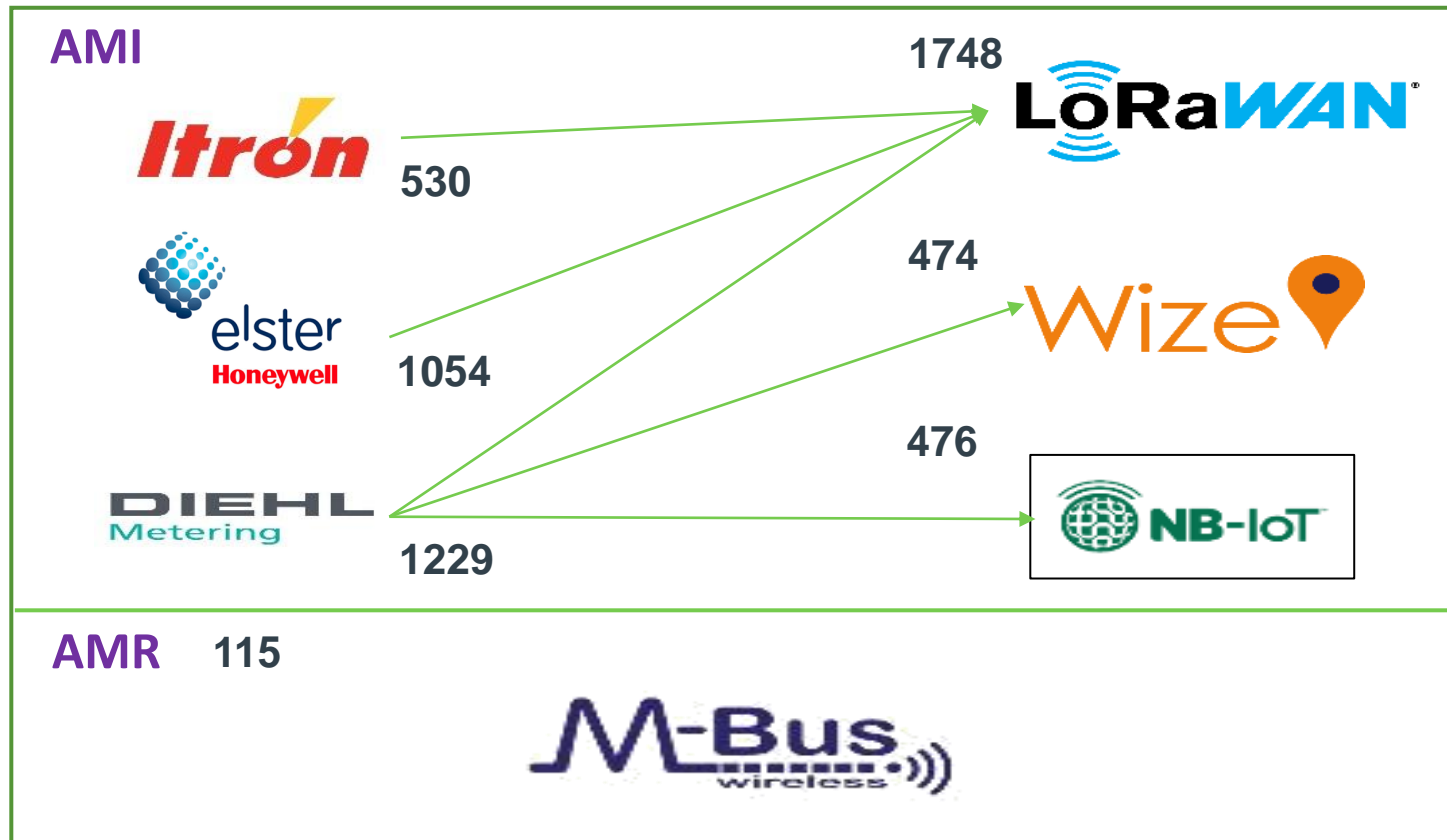
4 Numbers of Meters - 2813

- Over 12m meter reads

(Normal annual volume for all 136,000 meters = c300k reads)

Phase	Areas	Size	Meters Installed
1	Inverness	15, 20 & 25mm	1907
2	Orkney	15, 20 & 25mm	791
3	AMR Meters		115

3 Meter Manufacturers, 3 Network Providers, 4 Data Platforms



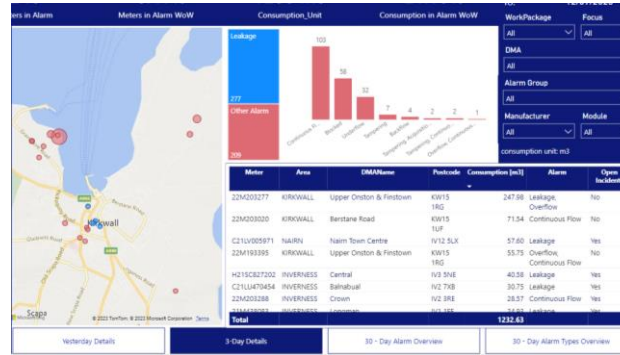
Performance – Triage

Asset / Data based Triage process

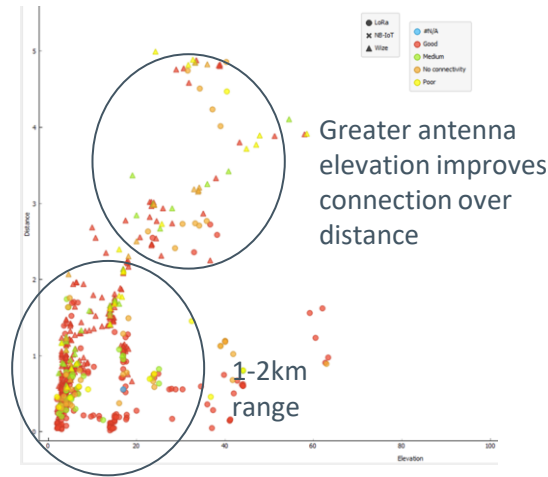
Install (site) Characteristics

- Install conditions
 - Chamber and lid type
 - Depths
 - Water
- Environment
 - Signal strengths

Risk mitigation and Success Criteria

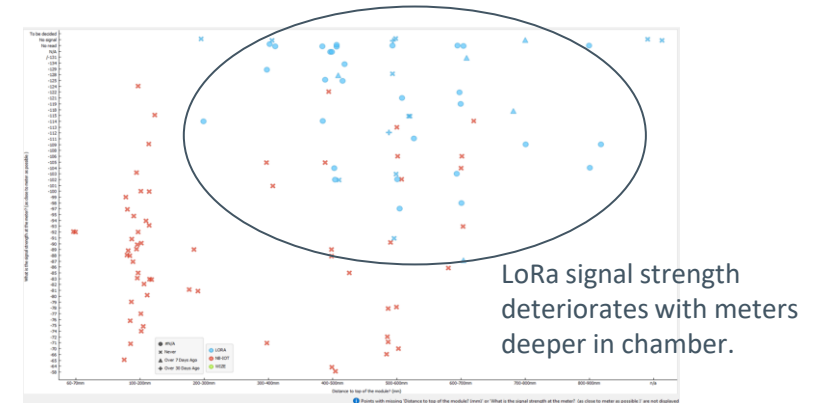


Data Consolidation – PowerBI Dashboards



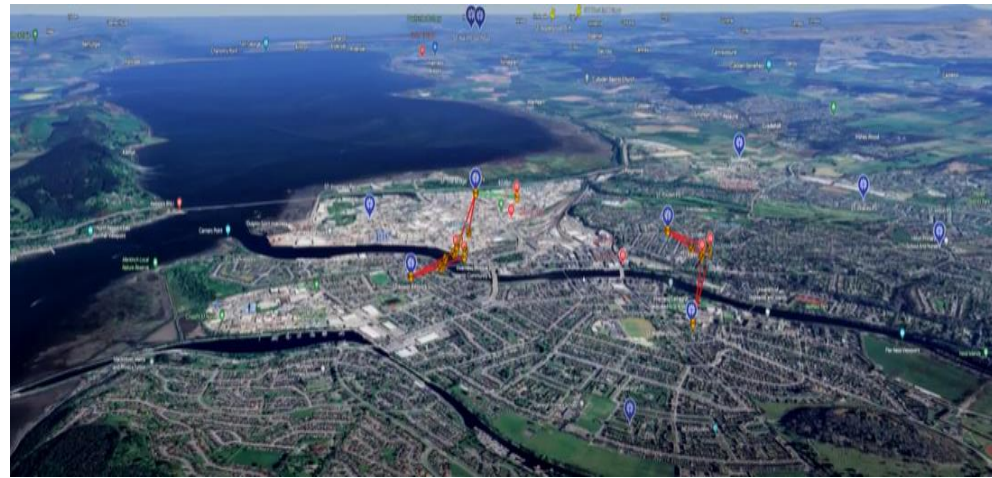
Connection tends to deteriorate the greater the distance from the antenna, especially if the antenna is not high (as is the case with most North antennae).

Depth of the meter in the chamber is more important than chamber/lid type, exacerbated by low angle to antenna. This is especially so for North/LoRa connectivity.



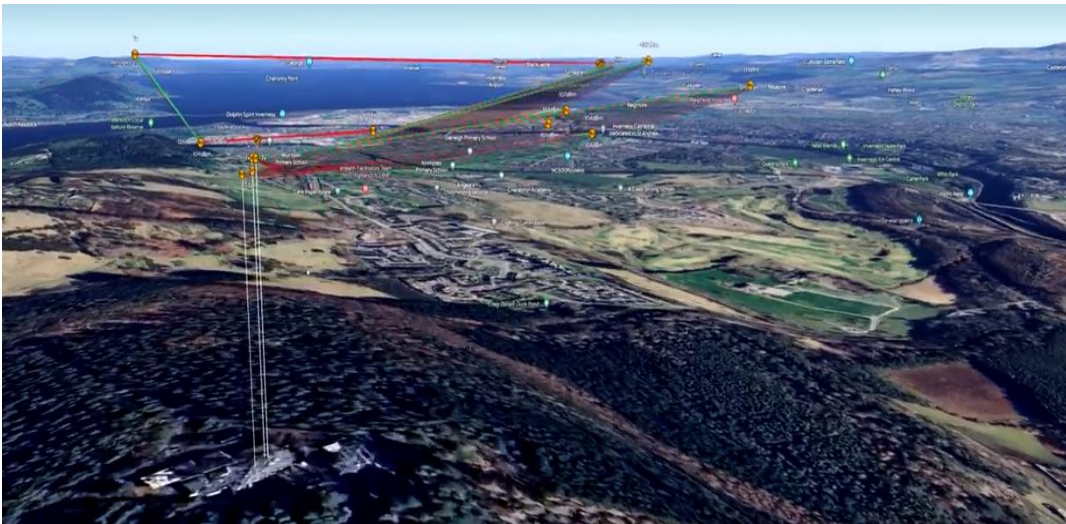
Performance - Focus

Detailed "Triage" – Desktop, Field and Technical investigation



Asset (Bottom Up) - Detailed Propagation Analysis / Modelling

- Model every asset / Every Gateway
- Predict Connectivity
- Machine learning – automate and change scenario's



Real low level detail, real time data and working with Network Providers to establish what is critical:

- Coverage Classes (connectivity / battery life)
- Connection Repetitions (0-256)
- Antenna (device) and direction

Understanding success criteria in advance of roll-out for each individual asset – using real world characteristics, experience and technical understanding

Looking to stand up some alternative network Infrastructure (LoRa)

Data

Data Analysis from the Smart Metering Pilot

To get a sense and quantify the opportunity we analysed the data of those Smart Meters delivering hourly reads and extrapolated the **Continuous Flow wastage** and savings estimated to the **full population of Non-Household (NHH) meters**.

1 Quantify the Opportunity

- Identified the Smart Meters with Continuous Flow (CF)
- Quantified the night consumption to establish the excess
- Established that of total consumption during the sampling period

2 Extrapolate

- Applied to the Scottish Water population of Non-Household meters

3 Results

- Assume we save c. 30% of this wasted water (used as an indicative from conversations with Thames)

30% potential waste



106ML / day

(c354ML / day metered NHH consumption)



32ML / day

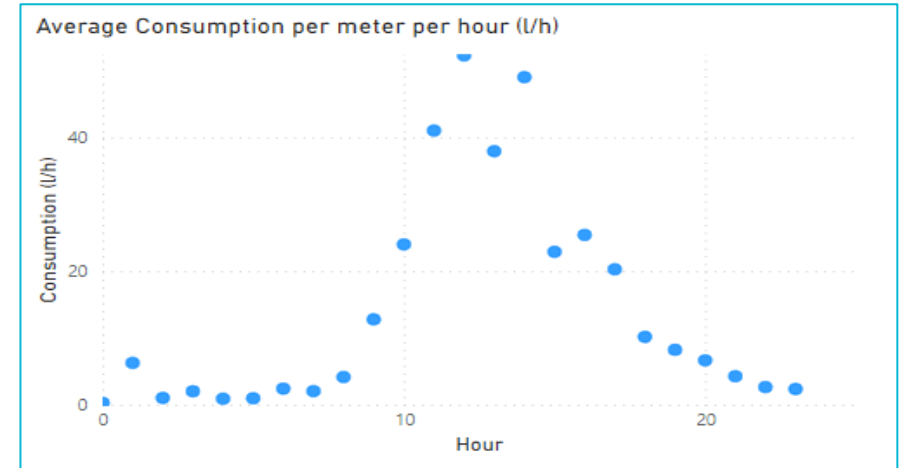
Potential saving

Analysis by sector - Schools

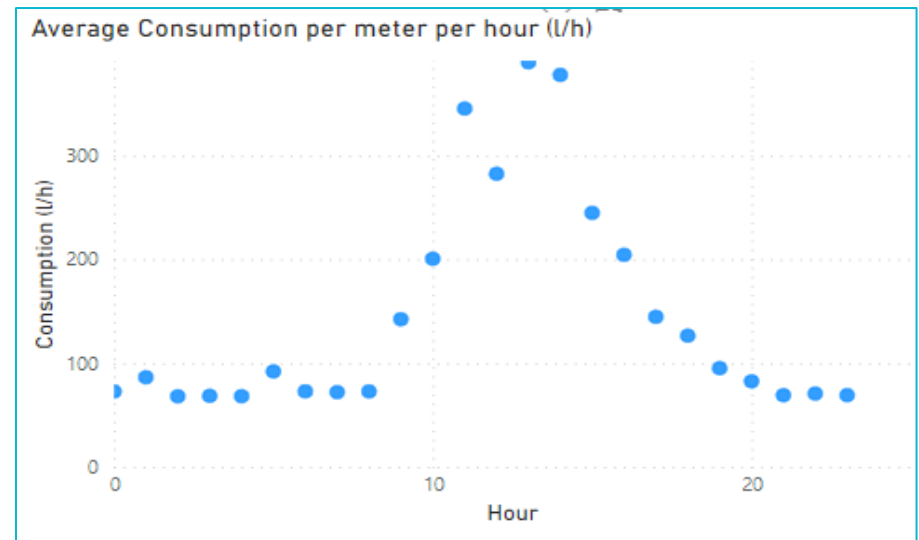
Number of Meters				2 week consumption m3			
Above 10 l/h Threshold				Above 10 l/h Threshold			
Cont Flow	NO	Yes	Total	Cont Flow	NO	Yes	Total
No	7		7	No	33		33
Yes		4	4	Yes		166	166
Total	7	4	11	Total	33	166	199

- **11 schools in the sample:**
 - 7 of them (64%) no continuous flow & consumption below threshold
 - 4 with continuous flow above 10 l/h threshold
- **The 7 schools without continuous flow and below threshold consume on average 1l /h at night, 32 l/h on average during weekdays and 164 l/h at peak (day / night ratio = 32)**
- **4 schools with continuous flow above threshold consume 74 l/ hour night lining, 264 l/h weekdays daytime and 923 at peak (Day / night ratio = 3.5)**
- **The difference in night ratio of the Continuous Flow schools vs. non continuous flow ones suggests the high continuous flow is not explained by the difference in size of the schools**

7 meters no continuous flow, below threshold



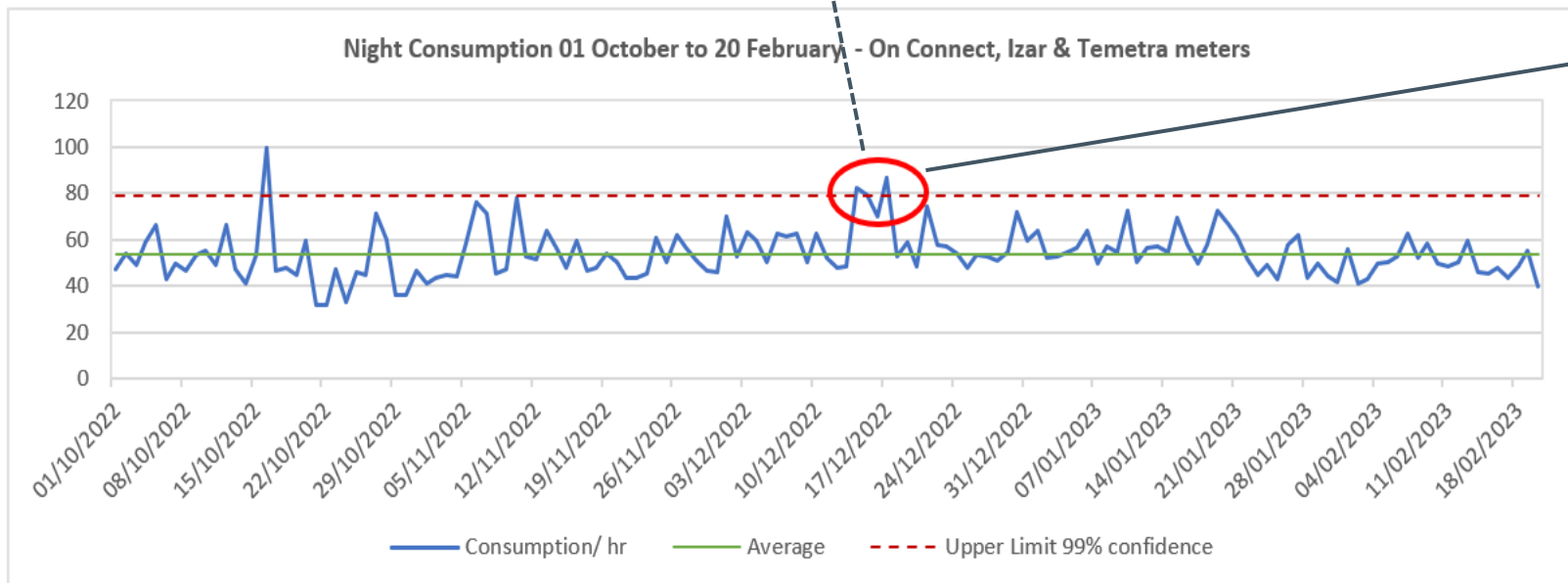
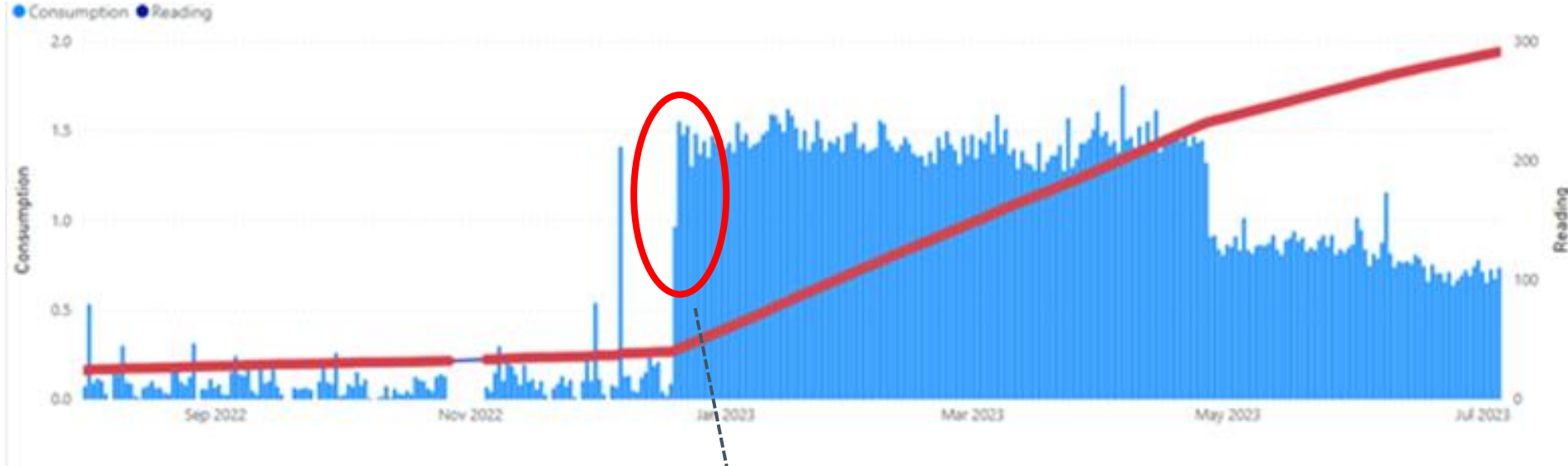
4 meters continuous flow above threshold



Industry Examples – Continuous flow

H21VA751065

Meter ID



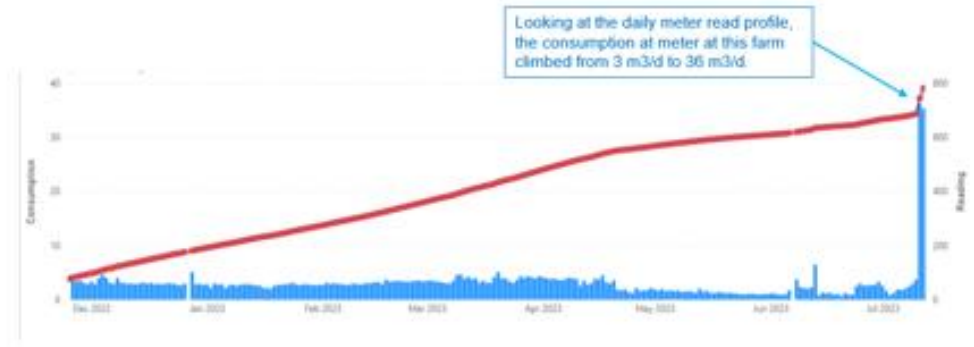
Major Winter
"Freeze / thaw"
event

Upper Limit

Average
consumption
per night

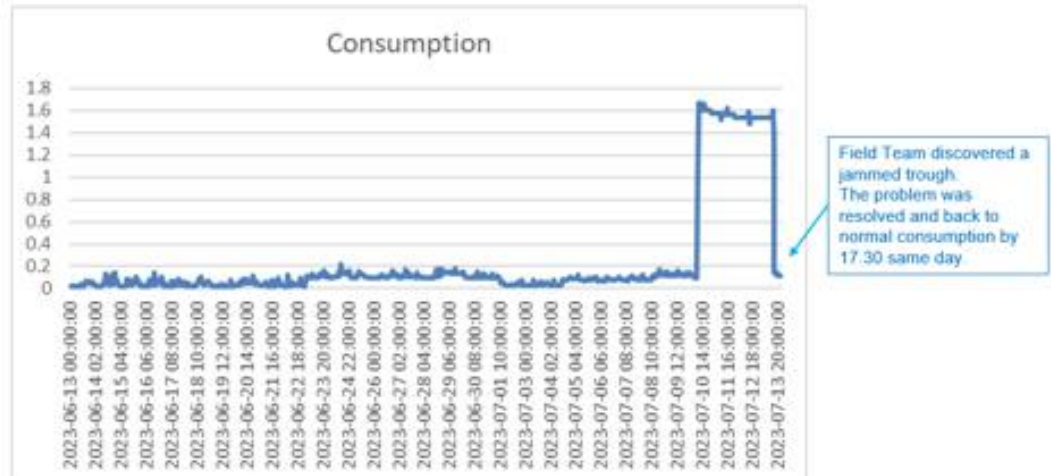
Orkney Farm

Reviewed 3-day Continuous Flow/Leakage alarms for Orkney.
 In the map overview, size of circle is a relative indication of the volume of flow.



The dashboard also provides a summary overview of the consumption profile for each asset.

The local SW field team were alerted to the potential problem by 14.20 on the day the issue was noted.



Local Operations had seen the “leakage” in the DMA – would have usually resulted in local sweeps

Pro-active monitoring and identification of significant “issue”

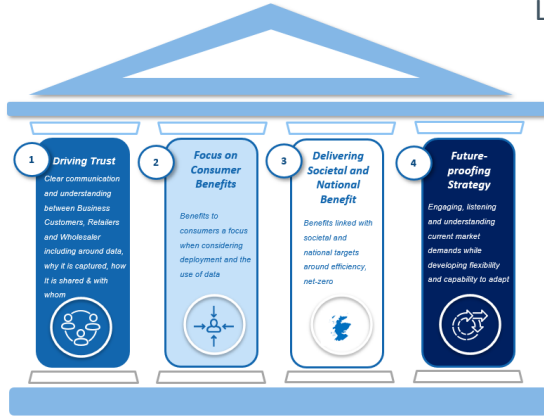
Operations staff and customer engaged

Fixed in 3 Hours – Customer “Delighted” (and impressed)

Pro-Active Service Model
 (all asset issues – reduced inbound demand, SW gets to it before the customer / Licensed Provider is even aware)

Draft Market Facing Strategy

Draft Market Facing Strategy



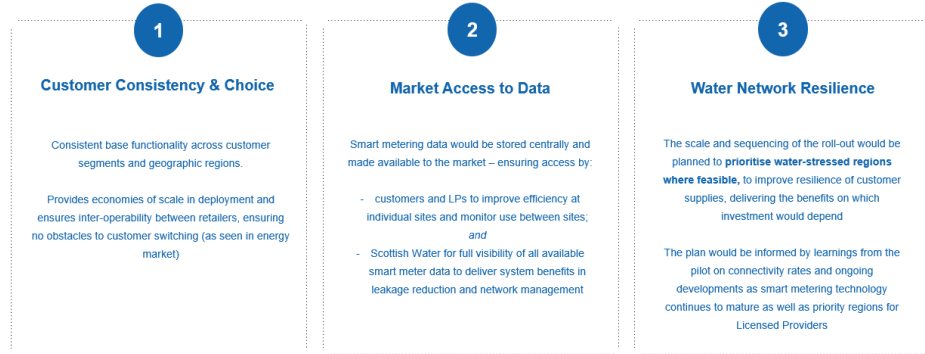
Licensed Provider Engagement

- Questionnaire
- Market Working groups across key area's:
 - Data
 - Roles and Responsibilities
 - Financing

Potential Approach – Wholesaler-Led Deployment

Draft

It is proposed that, if approved, the deployment of smart metering would be wholesaler-led with Scottish Water continuing to own and maintain the asset and with consumption data stored centrally and accessible by the market to maximise benefits:



Potential Approach - Technology

Draft

Scottish Water would adopt industry standards, specifications and best practice where practical and compatible with our overall approach. We are committed to engaging with English wholesalers and the Strategic Metering Committee outputs to inform our planning and strategy development.



Meter



Network

- Meter agnostic – best meter to achieve required level of performance
- Flexible Meter / Network combination compatibility
- Equipped with required alarms, read granularity, configurable functionality and battery life
- Can be logged independently

- Blended based on network coverage and connectivity / propagation drivers - success
- Best value approach for scale of deployment
- Likely focus on public network infrastructure (NBIoT / LoRa)
- Fixed network options considered where cost / benefit makes sense

- Office
- Cloud
- Data Pool

- Consider data aggregator or managed data as a service
- Simple, secure, easy access and maintenance.
- Principle of data in one place, single platform, availability, timeous, completeness
- API and associated integration capabilities to facilitate sharing with market

Potential Approach - Data Strategy

Draft

Read Data Frequency

Hourly read data captured as standard - sufficient for most customers to assess water efficiency

Technology allows for more detailed read data capture (to maximum 15-minute intervals). This would be by exception and could incur additional costs.

Read data would be transmitted at least daily to data collector / aggregator

Read data would be available to be shared more widely with the market within 24-48 hours of transmission to the data collector / aggregator.

Data Availability

Monthly reads required for timely settlement (based on current tariff structures)

Customers should be able to access their granular (i.e. hourly) consumption data via their Licensed Provider

Potential Licensed Provider for differentiation via presentation of data and associated insight and advice

Approach to data sharing within the market would need to consider privacy and security, including GDPR requirements

Further discussion required

Where would granular consumption data be stored and made available to the market – CMA, Scottish Water, other?

The CMA appear to be best placed given that Central Systems have access mechanisms for all market participants and hold the master record of which LP is registered to which SPID

How to ensure all customers benefit from minimum data access and functionality - minimum standards on LPs for data provision or a central route to basic data availability for customers (CMA/Scottish Water)?

Whose granular consumption data would LPs be able to access – own registered Supply Points only or entire market?

LPs currently access market data for the entire market but granular smart meter consumption data may have additional privacy and security sensitivity

Key Considerations

- Access – what / how much
- Data availability – LP and Customers
- Ensuring all customers benefit

Potential Approach - Roles, Responsibilities and Funding

Smart Metering would have implications for metering roles and responsibilities for Scottish Water and Licensed Providers.

If deployed, it is proposed that:

- Responsibility for meter reading (including retrieval of read data and submission into market systems, with associated market Performance Standards) would transfer from Licensed Providers to Scottish Water for smart meters
- The cost of meter reading would transfer from the retail margin to the wholesale charge as Scottish Water takes on responsibility for providing readings from smart meters
- The change should be cost neutral for customers – there should be no increase in retail charges arising from the introduction of smart metering for default ‘standard’ smart meter data / functionality
- Additional data / smart meter services above the default standard may be chargeable

Focus and Next Steps

- Pilot activity continues – Performance, Network alternatives etc.
- Licensed Provider (retailer) feedback – further engagement / working groups. Work through the complex questions and key structural components
- Market Design implications
- Internal operating model and systems
- Business Case Build / Regulator discussions / Refine strategy

Debate

**Credit support and CPW117
(reducing the amount of credit
support in exchange for Reduced
Notice Post-Payment)**

Mike Swallow
United Utilities





Credit Support

January 2023

Dovestone Reservoir



Water for the North West

Objectives

Credit Support Amount Calculations – Reduced Default Notice Periods

- Review understanding of Credit Support Amount calculations – notably with Reduced Default Notice Period and unsecured allowances
- Discuss whether this is a material issue for the market
- Agree on any solution, as necessary

Credit Support Notice

Credit Support Amount Calculations – Reduced Default Notice Periods

Following the approval of CPW117 the Credit Support Amount calculations were updated.

9.11 Credit support requirements

9.11.3 Following the receipt of each P1 Settlement Report by the Contracting Wholesaler and Contracting Retailer, the Credit Support Amount for the following Invoice Period shall be equal to:

(a) the Credit Support Requirement for the following Invoice Period less:

(b) (where the Contracting Retailer has selected the Reduced Notice Post-Payment option in Section 9.2.1) the Reduced Default Notice Period Allowance.

(c) the Unsecured Credit Allowance applicable to the Contracting Retailer (if any); and

(d) accrued interest (if any) from any cash deposited by the Contracting Retailer in the Cash Security Account).

Credit Support Notice Definitions	Calculations
The Credit Support Requirement, the amount to be provided for the following Invoice Period based upon the P1 Settlement Report;	CSR
Amount of Reduced Default Notice Period Allowance	RDNPA
Unsecured Credit Allowance applicable to the Contracting Retailer in accordance with Schedule 2E;	$UCA = CSR \times [] \%$
Amount of accrued interest held by the Contracting Wholesaler on any cash in the Cash Security Amount to the order of the Contracting Retailer in accordance with Sections 9.12.5 and 9.12.61;	AI
Credit Support Amount (Credit Support Requirement less any applicable Unsecured Credit Allowance and accrued interest) to be provided by the Contracting Retailer in accordance with Section 9.11.3	$CSA = CSR - (RDNPA - UCA + AI)$

Reduced Default Notice Period

“Reduced Default Notice Period Allowance”

is the amount, expressed in pounds sterling, calculated on a monthly basis in accordance with the following formula

$$x = (\gamma/z) \times 9 \text{ where:}$$

x is the Reduced Default Notice Period Allowance;

γ is the amount specified in the P1 Aggregated Settlement Report and issued to the relevant Contracting Wholesaler and Contracting Retailer; and

z is the number of days in the Month for which the Provisional Monthly Charge relates;



Within the revised conditions,

- the default timelines are reduced from an 82 day cycle to 68 days
- the period which retailer credit support provisions should cover is reduced from 50 days to 41
- maintain the 60:40 risk share as defined at market opening

Illustration

"Credit Support Requirement" is the amount, expressed in pounds sterling, calculated on a monthly basis in accordance with the following formula $x=(\gamma/z) \times 50$ where:
 x is the Credit Support Requirement;
 γ is the amount specified in the P1 Aggregated Settlement Report and issued to the relevant Contracting Wholesaler and Contracting Retailer; and
 z is the number of days in the Month for which the Provisional Monthly Charge relates;

Illustration - 20% unsecured credit	Post Pay 50 days	Reduced Notice 41 days
Credit Provision (82 days post pay or 68 reduced notice)	£ 820,000	£ 680,000
P1 value	£ 300,000	£ 300,000
The Credit Support Requirement	£ 500,000	£ 500,000
Amount of Reduced Default Notice Period Allowance		£ 90,000
CSA without unsecured allowances	£ 500,000	£ 410,000
Retailer Risk - full CSR amount	61.0%	60.3%
Wholesaler Risk - full CSR amount	39.0%	39.7%

Calculation

$$CSA = CSR - (RDNPA - UCA + AI)$$

Where there is no unsecured allowance the introduction of a Reduced Default Notice Period Allowance does not materially impact the wholesaler:retailer risk allocation.

* Illustration does not include any Accrued Interest

Illustration

Illustration - 20% unsecured credit	Post Pay 50 days	Reduced Notice 41 days
Credit Provision (82 days post pay or 68 reduced notice)	£ 820,000	£ 680,000
P1 value	£ 300,000	£ 300,000
The Credit Support Requirement	£ 500,000	£ 500,000
Amount of Reduced Default Notice Period Allowance		£ 90,000
CSA without unsecured allowances	£ 500,000	£ 410,000
Retailer Risk - full CSR amount	61.0%	60.3%
Wholesaler Risk - full CSR amount	39.0%	39.7%

Unsecured Credit %	20%	20%
Unsecured Credit Allowance	£ 100,000	£ 100,000
<i>Accrued interest</i>	£ -	£ -
CSA with unsecured allowances	£ 400,000	£ 310,000
Retailer Risk	48.8%	45.6%
Wholesaler Risk	51.2%	54.4%

Unintended unsecured allowance		£ 190,000
Unintended unsecured allowance %		38.0%

* Illustration does not include any Accrued Interest

Calculation

CSR = 50 days wholesale charge

UCA = CSR x []%

CSA = CSR – (RDNPA - UCA + AI)

In both scenarios the Unsecured Credit Allowance calculation is still defined as a percentage of the 50 days CSR.

When this applied to a reduced credit provision amount, based on 68 days, it distorts the wholesaler:retailer risk allocation and inadvertently provides for a greater unsecured allowance.

20% of 50 days wholesale charge is being applied as an allowance to a reduced notice period of 41.

Discuss

- Does anyone have any views on whether they believe this to be inline with the intended change and Ofwat approval?
- If incorrect, is this significant enough to warrant a code change?

** Illustration does not include any Accrued Interest*

Proposed Solution 1

Illustration - 20% unsecured credit	Post Pay 50 days	Reduced Notice 41 days	Opt 1
Full Credit Provision (82 post pay or 68 reduced notice)	£ 820,000	£ 680,000	£ 680,000
P1 value	£ 300,000	£ 300,000	£ 300,000
The Credit Support Requirement	£ 500,000	£ 500,000	£ 410,000
Amount of Reduced Default Notice Period Allowance		£ 90,000	
CSA without unsecured allowances	£ 500,000	£ 410,000	£ 410,000
Retailer Risk - full CSR amount	61.0%	60.3%	60.3%
Wholesaler Risk - full CSR amount	39.0%	39.7%	39.7%
Unsecured Credit %	20%	20%	20%
Unsecured Credit Allowance	£ 100,000	£ 100,000	£ 82,000
<i>Accrued interest</i>	£ -	£ -	£ -
CSA with unsecured allowances	£ 400,000	£ 310,000	£ 328,000
Retailer Risk - inc. unsecured	48.8%	45.6%	48.2%
Wholesaler Risk - inc. unsecured	51.2%	54.4%	51.8%
Unintended unsecured allowance		£ 190,000	£ 82,000
Unintendednsecured allowance		38.0%	20.0%

Calculation

The Reduced Default Notice Period Allowance could be removed from the calculation, and The Credit Support Requirement definition, per slide 5, is updated depending on whether a retailer has opted into the reduced notice option.

$$x = (y/z) \times 41$$

This better maintains the wholesaler:retailer risk allocation and does not provide for any unintended unsecured allowance.

* Illustration does not include any Accrued Interest

Proposed Solution 2

Illustration - 20% unsecured credit	Post Pay 50 days	Reduced Notice 41 days
Full Credit Provision (82 post pay or 68 reduced notice)	£ 820,000	£ 680,000
P1 value	£ 300,000	£ 300,000
The Credit Support Requirement	£ 500,000	£ 500,000
Amount of Reduced Default Notice Period Allowance		£ 90,000
CSA without unsecured allowances	£ 500,000	£ 410,000
Retailer Risk - full CSR amount	61.0%	60.3%
Wholesaler Risk - full CSR amount	39.0%	39.7%

Unsecured Credit %	20%	20%
Unsecured Credit Allowance	£ 100,000	£ 100,000
<i>Accrued interest</i>	£ -	£ -
CSA with unsecured allowances	£ 400,000	£ 310,000
Retailer Risk - inc. unsecured	48.8%	45.6%
Wholesaler Risk - inc. unsecured	51.2%	54.4%

Opt 2
£ 680,000
£ 300,000
£ 500,000
£ 90,000
£ 410,000
60.3%
39.7%

Calculation

The Reduced Default Notice Period Allowance remains, and Is used within the Unsecured Credit Amount calculations to reduce the value which unsecured allowances percentages are applied against.

$$UCA = (CSR - RDNPA) \times [] \%$$

20%
£ 82,000
£ -
£ 328,000
48.2%
51.8%

The outcome is consistent with Proposed Solution 1.

* Illustration does not include any Accrued Interest

MOSL

CLOSE

