

The background features a stylized illustration of a person with dark skin, curly hair, and glasses, wearing a blue shirt. To the right, a document titled 'Your water bill' is visible, showing some graphical elements like horizontal bars.

# **Market Performance Framework (MPF) Reform**

Consultation 4 – financial tools and incentives

Summary of feedback and outcomes

27 September 2024

# About Consultation 4



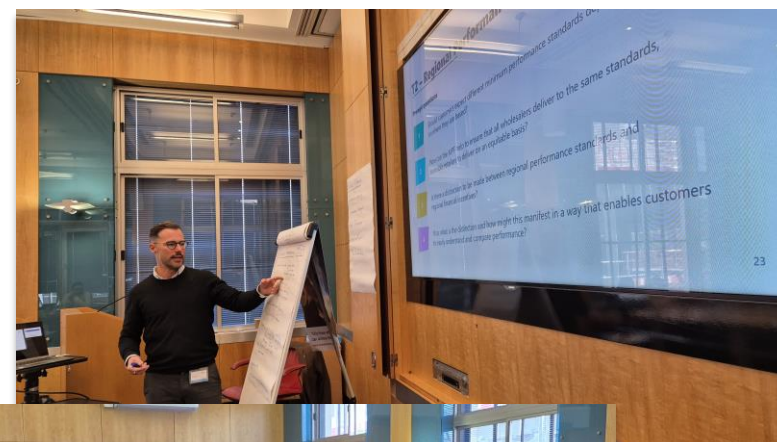
- MOSL is working with stakeholders to reform the current Market Performance Framework (MPF)
- Consultation 4 focused on Part D of the programme, i.e. proposed financial tools and incentives
- The Consultation ran from 8 July – 2 Aug 24. Pre-reading documents were issued in advance
- 28 responses (see table) included:
  - 14 Wholesalers
  - 13 Retailers (including 2 self-supply)
  - 1 'other' - CCW
- 1,100+ individual comments and observations
- Quantitative results published on 13 August
- Qualitative feedback, verbatim comments and MOSL's initial responses were published on 6 September

Wholesalers	Consultation		Retailers	Consultation		Other	Consultation	
	3	4		3	4		3	4
Affinity Water	✓	✓	ADSM	-	✓	CCW	✓	✓
Anglian Water	✓	✓	Business Stream	✓	✓	The Energy Consortium	✓	-
Dŵr Cymru (W)	✓	✓	Castle Water	✓	✓			
Northumbrian Water	-	✓	Clear Business Water	✓	✓			
Portsmouth Water	✓	✓	Dŵr Cymru (R)	✓	✓			
SES Water (W)	✓	✓	Everflow	✓	✓			
Severn Trent	✓	-	Nottingham CC (self-supply)	-	✓			
South East Water	✓	✓	Pennon Water Services	✓	✓			
South Staffs Water	✓	✓	Sefton Council (self-supply)	✓	✓			
South West Water (inc Bristol)	✓	✓	SES Business Water (R)	✓	-			
Southern Water	✓	✓	Water2Business	✓	✓			
Thames Water	✓	✓	Waterscan	-	✓			
United Utilities	✓	✓	WaterPlus	✓	✓			
Wessex Water	✓	✓	Wave	✓	✓			
Yorkshire Water	✓	✓						
<b>Totals</b>	<b>14</b>	<b>14</b>		<b>11</b>	<b>13</b>		<b>2</b>	<b>1</b>

All MPF documents, including Consultation 4 pre-reading, verbatim comments and detailed responses, are available on the [MOSL website](#).

# About this document

- This document summarises stakeholders' feedback to Consultation 4
- Key themes from feedback were presented and discussed at an event in London on Thursday 12 September
- This document:
  - Summarises the themes identified from responses
  - Outlines MOSL's 'minded to' position and rationale on the key themes prior to the presentation, and MOSL's position following feedback at the event
  - Includes 11 themes that are not considered to require further discussion
- Themes are presented in the order in which they were discussed at the event
- The process and outcomes from Consultation 4 will be presented to the Steering Group on 9 October



# Consultation 4 timeline



13 August 2024

High level quantitative results published



6 September

Verbatim comments and MOSL's detailed responses to all feedback published



12 September

Face-to-face feedback event in London



27 September

Summary of Consultation 4 feedback themes and outcomes (this document)

1

## Considering *quantitative* results

- What is the overall market sentiment?
- What are the results when broken down by wholesaler and retailer?

2

## Considering *qualitative* results

- Check 1: Categorising comments (e.g. supportive, unsupportive, neutral, not classified) to indicate areas that may need a closer look
- Check 2: Grouping feedback into common 'themes'
- Check 3: Considering detailed feedback to ensure no comments are missed, even if point has not been widely made

3

## Based on the above, indicate whether MOSL is:

- "Minded to progress in line with feedback"
- "Minded to not take forward"
- Further evidence required in proposals
- Further consideration needed

# 22 themes identified from Consultation 4 feedback



Theme	Theme
T1	Performance standards need to set fairly, and communicated effectively, to be effective and fair
T2	Performance standards and/or charges might need to vary across geographies and/or different parties to be effective and fair
T3	Performance standards and/or charges and/or part of KPI design need to change over time to be truly effective
T4	Difficult to comment on specifics while the value of charges and standards are yet to be determined
T5	Proposals do not sufficiently account for factors outside parties' control, which prevent trading parties achieving 100% performance
T6	If performance standards are maintained outside the Market Codes, there still needs to be a clearly prescribed governance process that mandates an evidence base for changes and affords parties visibility and time to adapt
T7	Intent and relevance of compensation payments in the MPF needs to be clarified as these will: not be accurate; add complexity; are not guaranteed to be passed onto the end customer; might restrict claims outside MPF; and risk double jeopardy if applied alongside penalties or BR-MeX. Wholesalers should also be able to claim compensation. This is an issue best dealt with between companies
T8	Calibration of standards and determination of charge values for the financial tools (and frequency of application) needs to ensure that market competition, stability and viability (including for new entrants) is not: put at risk; does not create unmitigated follow-on impacts on other KPIs/activities; and prioritises getting performance right over generating funds for use elsewhere
T9	The intention of outperformance payments needs to be clarified as these might not be certain (if dependent on penalties) and parties should not be rewarded for meeting code obligations or where they have had periods of severe underperformance in a year. The value of outperformance payments would need to be guaranteed to some extent to warrant companies investing to achieve them
T10	Charges and/or standards should not be confirmed and applied until after a period of testing and calibration

# 22 themes identified from Consultation 4 feedback (continued)

Theme	Theme
T11	Proposals lack parity in the treatment of Wholesalers and Retailers.
T12	Rather than remove the concept of a charging 'cap', setting a higher cap and/or allowing the Performance Assurance Committee (PAC) or Strategic Panel to change it over time carries less risk. Detailed analysis of the options is required before a decision is made
T13	The MPF needs to be able to adapt its reliance on financial interventions in recognition of natural incentives for Retailers
T14	There needs to be clarity on dispute/appeal mechanisms available to parties regarding the calculation of metrics and charges
T15	The methodology for determining/modelling the value of charges and standards needs to be shared and further engagement is required
T16	General redistribution of penalty charges can be minimised, but the process for determining how funds are allocated to the Market Improvement Fund (MIF) and outperformance payments before being redistributed needs further work and clarity
T17	There needs to be clarity on how the proposals avoid disincentivising parties from collaborating and mitigate the potential for 'gaming' the MPF
T18	A review is necessary after implementation
T19	It is not clear why there is no scope for compensation payments from retailers to wholesalers
T20	Revisit timeline for delivery and implementation approach
T21	Proposals are unnecessarily complex and without evidence
T22	Further metric discussion is required at the PAG to explore the impact of potential changes to obligations

# **Key themes from Consultation 4**



# Summary of key themes

The following 7 themes were prioritised based on the significance of the concept, along with the detail and strength of feeling through the feedback, as well as their recurrence across multiple questions.

Ref	Theme summary	MOSL 'minded to' position at meeting	MOSL 'minded to' position following meeting	Related themes
T12	Capping financial incentives	Minded to agree - we propose to include a cap on charges	Unchanged	
T7	Compensation payments	Minded to agree – we propose to remove concept of compensation	Unchanged	T19
T15	Need a further consultation once charges and standards are proposed	Minded to agree – we will look at how to accommodate in plan	Unchanged	T1, T10
T2	Variations in regional performance	Minded to disagree – due to complexity	Unchanged, but Performance Assurance Committee (PAC)* to take into consideration when reviewing performances	
T3	Varying future charges (i.e. whether sits inside or outside the Codes)	Minded to agree – further discussion needed at PAG to define	Unchanged	T6
T9	Outperformance payments	Further consideration needed (PAG)	Unchanged	
T20	Shadow period	Minded to agree – will look to see how we accommodate in plan	Unchanged	T10

\*Successor to Market Performance Committee/MPC

# Theme 12 – Capping charges

## Feedback theme

Rather than remove the concept of a charging 'cap', setting a higher cap and/or allowing the PAC or Panel to change it over time, carries less risk. Detailed analysis of the options is required before a decision is made.

MOSL considerations	Takeaways from discussion
Very few trading parties hit the charging cap currently. Nevertheless, we recognise the cap needs to consider market viability and stability. There may also be higher uncertainty on financial in the early stages of the new MPF	Several parties who previously supported the proposed removal of a cap would support a change of direction in recognition of consultation feedback. A cap provides protection against extreme scenarios and factors outside parties' control
Views on the cap will be taken into account and MOSL will re-examine the case for, and design of, a cap that balances space for incentives to have an effect with financial stability	The existence of a cap helps to inform the agreement of commercial contracts with third parties
	A cap which applies at an individual KPI level is a potential option to explore
	Any cap will need to ensure there is alignment with the approach to penalty charges and inflationary adjustment
	A shadow period can be used to review the suitability of a proposed cap
	There are other MPF tools that can be used to address trading parties who consistently hit a cap
	Detail and approach requires further discussion

**MOSL's position pre-discussion**

**Agree - plan will include a cap**

**MOSL's position post-discussion**

**Agree - plan will include a cap**

# Theme 7 - Compensation payments

**Intent and relevance of compensation payments in the MPF needs to be clarified as these will not be accurate; add complexity; are not guaranteed to be passed onto the end customer; might restrict claims outside MPF; and risk double jeopardy if applied alongside penalties or BR-MeX. The wholesaler should also be able to claim compensation. This is an issue best dealt with between companies.**

MOSL considerations	Takeaways from discussion
Compensation is not intended to incentivise performance or compensate end customers; covered by penalty charges and Guaranteed Standards Scheme (GSS) respectively	Compensation payments are too complicated to be effective and would hinder collaboration and relationships between retailers and wholesalers
Compensation is envisaged where a retailer has suffered as a direct result of the action or inaction of the wholesaler or another retailer. Though expected to be smaller in value than performance charges, payments would signify the direct impact of one party on another	There are other MPF tools and mechanisms in place that can help to mitigate the risks in focus of this tool
The current proposal reserves compensation payments for a limited number of KPIs where it is realistic to put a reasonable value against a genuine pre-estimate of loss (GPoL). Compensation would be set in advance for a type of failure and would be automatically applied	Requirements to cover loss could be sorted with direct communication between trading parties
Charges do not replace trading parties' rights to recover additional losses	The tool should be removed completely – no value in retaining as a concept for future application
MOSL considered the additional complexity was warranted and manageable – but consultation feedback has included a wide range of concerns including from retailers, wholesalers and CCW	
There is not clear evidence of support and a risk that potential benefits are outweighed by the complexity and other risks identified	Noted that there is not clear support either from parties that may receive and/or be required to pay compensation

**MOSL's position pre-discussion**

**Agree – minded to remove this tool**

**MOSL's position post-discussion**

**Agree – minded to remove this tool**

# Theme 15 – Determining standards and charges

## Feedback theme

The methodology for determining/modelling the value of charges and standards needs to be shared and further engagement is required for this.

### MOSL considerations

The consultation process to date has allowed progression and feedback on key aspects of the new MPF, i.e.:

- Consultation 1 – Risk and Issues, activities and incentives (Sept 22)
- Consultation 2 – ‘Longlist’ of activities (March 23)
- Consultation 3 – MPF Model (Sept 23)
- Consultation 4 – Design and principles of financial tools and incentives (Aug 24)

We acknowledge feedback that trading parties want clarity on charges and performance standards and that a consultation focused on this aspect would be a helpful and an important step

The addition of a consultation period needs to be factored into the existing plan, noting that trading parties and MOSL will need time to respond and review.

We will therefore take options to the MPF Steering Group for its consideration and agreement. Once agreed, this will be shared with trading parties at the earliest opportunity together with any impact on the target ‘go-live’ date.

### Takeaways from discussion

Another consultation (‘Consultation 5’) is required to set the value of charges and standards. It is difficult to give feedback on final outcomes without this detail

The timing of another consultation needs to consider the Final Determinations and Ofwat consultations, financial year end, and the timing of shadow reporting. ‘Consultation 5’ timing to be advised around November 2024. Decision to be discussed with Steering Group

The role of the PAC in monitoring charges, standards and the cap could be included within this consultation.

The approach MOSL has taken to review and replay consultation 4 feedback and changes to the model should be followed for future MPF consultations.

**MOSL’s position pre-discussion**

**Agree – we will look at how to accommodate into our plan**

**MOSL’s position post-discussion**

**Agree – we will look at how to accommodate into our plan**

# Theme 2 – Variances in regional performance

## Feedback theme

Performance standards and/or charges might need to vary across geographies and/or different parties to be effective and fair

### MOSL considerations

The NHH market is national; many customers are multi-regional

We believe it is important that the rules and obligations of the market are consistent across boundaries and geographies

Regional variations would introduce complexity and difficulties in providing like-for-like comparisons for customers

### Takeaways from discussion

Regional factors do contribute towards performance but providing a view of different regional standards would be practically challenging and would not benefit end customers

Regionality should not be used as an excuse for actual performance issues

However, whilst this is a national market, it is still important to collect regional data and for the PAC to consider these factors when interpreting performance

## MOSL’s position pre-discussion

Minded not to include due to complexity

## MOSL’s position post-discussion

Minded not to include due to complexity, but PAC to consider when interpreting performance

# Theme 3 – Varying future charges

## Feedback theme

Performance standards and/or charges and/or part of KPI design need to change over time to be truly effective

MOSL considerations	Takeaways from discussion
The reformed MPF will need to be flexible to account for changing risks, issues, and performance	In-built inflationary increases to charges appears sensible and eliminates the need for regular review of charges.
The model that goes live in April 2025 is likely to evolve over time in terms of KPIs, charges and performance standards.	It is acknowledged that codifying all MPF requirements would not provide the flexibility that the MPF needs to be successful.
<p>There is a decision to be made as to the extent to which performance standards and charges might be adjusted absent a code change. Current view:</p> <ul style="list-style-type: none"> <li>• Charges to increment by inflation without need for code change</li> <li>• Standards to be able to be flexed by PAC within a tolerance without need for a code change</li> <li>• Other adjustments will need code change (or equivalent process – see Theme 6)</li> </ul>	<p>Trading parties like the certainty, financial security and advance notice that codified changes provide. However, they also welcome and recognise the need for flexibility.</p> <p>The decision of which changes should be codified and which can be more flexible should be dependent on risk, impact and lead time.</p>
	There could be scope to explore specialised code change processes between the PAC and Code Change Committee (CCC).
	Responsibilities (e.g., decision makers), processes and tolerances for change need to be discussed further (e.g., at PAG and confirmed later consultations).

**MOSL’s position pre-discussion**

**Agree; further discussion needed at PAG to define**

**MOSL’s position post-discussion**

**Agree; further discussion needed at PAG to define**

# Theme 9 – Outperformance payments

The intention of outperformance payments needs to be clarified as these might not be certain (if dependent on penalties) and parties should not be rewarded for meeting code obligations or where they have had periods of severe underperformance in a year. The value of payments would need to be guaranteed to some extent to warrant companies investing to achieve them.

MOSL considerations	Takeaways from discussion
<p>Despite code obligations requiring 100% performance, reality since market opening is that this is rarely achieved. Performance standards recognise that some failures are an inherent part of operating in the market (for various factors).</p>	<p>The reputational benefit of outperformance might outweigh the potential payments received, and trading parties will constantly strive for 100% performance with or without outperformance payments.</p>
<p>Risk that trading parties ‘settle’ for achieving only the base level standard without sufficient incentive to stretch for improved performance. Outperformance payments act as ‘carrot’ to enable higher levels of performance for customers – well above typical industry norms.</p>	<p>There is a risk that outperformance payments might interfere with the competitive landscape.</p>
<p>Alternative is that all penalties are redistributed back to trading parties regardless of performance, which fails the ‘improving customer outcomes’ and ‘party accountability’ tests.</p>	<p>Code obligations are absolute.</p>
<p>Outperformance payments would be funded by performance charges which will persist for some time. MOSL acknowledges that the value of final pot cannot be guaranteed and trading party’s perceptions about outperformance payments are linked to their market strategy.</p>	<p>It is acknowledged that there is uncertainty in the availability of funds for outperformance payments. However, if penalty charges will not be used for outperformance payments, other uses need to be considered.</p>
<p>Respondent feedback reflects that outperformance remains compelling; incentivises beyond standard performances, is a better use of charges than ‘standard’ redistribution, but work is needed to set standards right.</p>	

**MOSL’s position pre-discussion**

Maybe – PAG to consider further

**MOSL’s position post-discussion**

Maybe – PAG to consider further

# Theme 20 – Shadow period

## Feedback theme

Revisit timeline for delivery and implementation approach.

MOSL considerations	Takeaways from discussion
<p>We acknowledge feedback that charges and/or standards should not be confirmed and applied until after a period of testing and calibration.</p>	<p>Strong preference for shadow. The type and length of a shadow period need to be discussed further, but there was a preference for six months. Some trading parties also asked MOSL to consider a 12-month shadow period.</p> <p>Trading parties discussed the merit of a one and two-phase approach to shadow (i.e. to deliver Phase 1 and Phase 2 metrics). Parties also discussed the potential for all metrics and tools being rolled out together, with a provision to extend the shadow period if necessary (cost and value permitting).</p>
<p>For any 'shadow' period we believe the follow principles should apply:</p> <ul style="list-style-type: none"> <li>• For a minimum period of six months</li> <li>• Performance report would be made available to trading parties and the Performance Assurance Committee (PAC) but not published externally</li> <li>• Charges would be calculated and made available but not invoiced</li> <li>• The existing MPF would remain in place for any shadow period</li> </ul>	<p>Alternatively, a phased/rolling shadow period could be considered as the implementation phases progress. Themed metrics/tools should be included in the same shadow period</p>
<p>The addition of a shadow period needs to be factored into the existing plan.</p>	<p>Metrics need to be fully defined and agreed before the start of the shadow period.</p>
<p>We will therefore take options to the Steering Group for its consideration and agreement. Once agreed, this will be shared with trading parties at the earliest opportunity together with any impact on the target 'go-live' date</p>	<p>Acknowledgement that MPF 1.0 needs to continue until shadow has concluded.</p>

**MOSL's position pre-discussion**

**Agree – we will look to accommodate**

**MOSL's position post-discussion**

**Agree – we will look to accommodate**



**Additional  
themes discussed  
in Open Forum**

# Open Forum

## Themes 5 & 22: Cyclic meter reads (M01)

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### Summary of feedback

One trading party, with support from several others, expressed concern that *M01 - Meter Reads performed within SLA* – would:

- Not fundamentally change the incentive for Retailers to read meters, while
- Resulting in harsher penalties compared to those associated with MPS 18 (missed biannual reads) and MPS 19 (missed monthly reads) in the current MPF due to not fully accounting for factors outside parties' control.

The request made was to revisit M01 in PAG workshops, with suggestions that a re-design could consider an attempted meter read as a 'success' and/or build standardised 'skip codes' (reasons why a meter reading did not succeed) into CMOS.

### This links to the following themes:

- **T5 – Trading Party Control:** Proposals do not sufficiently account for factors outside parties' control, which prevent TPs achieving 100% performance.
- **T22 - Further metric discussion:** Further metric discussion required at the PAG to explore the impact of potential changes to obligations

# Open Forum

## Themes 5 & 22: Cyclic meter reads (M01)

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### MOSL considerations

- Discussions about the extent to which factors outside trading parties' control are factored into KPIs are **discussed in detail at the design stage of each KPI**. The mechanism of measurement for every KPI is discussed in detail by PAG members and any trading parties that wish to attend (who have an open invitation) and shared with the industry. The PAG meetings to date have provided trading party SMEs with **considerable time and influence** over the design of the KPIs over **multiple iterations**.
- As Product Owner, MOSL must ultimately determine a design that **improves upon the baseline and aligns to the programme's principles** (e.g., customer outcomes, trading party accountability, cost effectiveness) even if there is **no clear consensus**. Some exceptions and allowances exist where action or inaction by one trading party may impact another's ability to fulfil an obligation (e.g., meter reading penalties on retailers waived while a bilateral to find or fix a meter is ongoing with the Wholesaler), but **over-reliance on these dilutes the original focus** of any KPI.
- It is noted that action or inaction by others outside of the Market Codes can impact the ability to deliver obligations. A proportion of such 'real life' matters are proposed to be managed through performance standards that **identify adequate performance below 100% delivery** (e.g., to account for situations where premises access is more difficult to achieve). Furthermore, counterparties that might impact a TPs' performance are themselves subject to targeted incentives to encourage them to address blockers (e.g., Wholesalers are incentivised to resolve bilateral requests quickly and correctly where meters are missing or malfunctioning).

# Open Forum

## Themes 5 & 22: Cyclic meter reads (M01)

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### MOSL considerations (continued)

- MOSL recognises that some trading parties have highlighted areas where Code obligations could be changed, either by adding new obligations or removing existing ones, e.g. obligations relating to cyclic meter readings (M01)
- Such proposals will need to be developed and proposed by Trading Parties, with MOSL's support, via the usual code change process, i.e. outside of the MPF programme
- MOSL recommends trading parties work with members of the User Forum, RWG, etc to develop proposals. MOSL will support these forums as usual and welcomes further discussions on trading parties' proposals.
- To begin discussions on the obligations questions raised during Consultation 4, MOSL has invited Trading Parties to a meeting on [11 October 2024].

### MOSL's position post-discussion

Code change proposals will need to be developed outside the MPF programme, with MOSL's support. MOSL will facilitate a meeting to begin discussions.

# Open Forum

## Theme 14: Disputes around MPF figures and charges

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### Links to the following theme:

Theme 14 – Dispute mechanisms: There needs to be clarity on dispute / appeal mechanisms available to parties regarding the calculation of metrics and charges.

### MOSL considerations

- Charges will be 'systemised' and based on performance levels. Our delivery of this process will be subject to an annual, independent review and audit, with results and actions monitored by the PAC.
- Agree there is a need for a dispute mechanism – this might not necessarily need to be a bespoke mechanism. The current dispute process could be followed if a calculation has not been applied by MOSL in accordance with requirements set out in the codes.

### MOSL's position post-discussion

Minded not to take forward a separate, bespoke dispute/appeal process

**Additional theme  
requiring further  
discussion**

# Additional theme

## Market Improvement Fund (MIF) and outperformance payments



### **The following topic was not raised in Open Forum, but will require further discussion:**

Theme 16 – MIF and outperformance payments: General redistribution of penalty charges can be minimised, but the process for determining how funds are allocated to MIF and outperformance payments before being redistributed needs further work and clarity.

### **MOSL considerations**

- It is proposed that the Panel considers the allocation of monies in the following order of priority: the MIF; outperformance payments and redistribution (defined as per the MAC)
- This does not mean that the MIF will always take more funds than outperformance payments.
- We do not consider redistribution can be completely removed from MPF as there is always the potential for penalty payments exceeding the needs and requirements of the MIF and outperformance payments
- We agree that redistribution should be minimised as much as possible without diminishing the quality and benefit criteria for MIF projects or 'over-rewarding' on MPF performance.

**MOSL's position post-discussion** **Consider further (PAG)**

**Remaining themes  
and MOSL position  
for information – no  
further discussion  
required**



# Additional themes

The following 11 themes were identified in stakeholders' feedback to Consultation 4. The feedback is acknowledged and MOSL's response to each item is provided below.

Ref	Theme	MOSL Considerations	Current Position
T1	<b>Performance standards need to set fairly, and communicated effectively, to be effective and fair</b>	<ul style="list-style-type: none"> <li>We will engage with trading parties openly and transparently in determining the performance standards.</li> <li>We anticipate this will involve another consultation.</li> <li>We recognise the importance of effective communication.</li> </ul>	<b>Agree (see also T10, T15)</b>
T4	<b>Difficult to comment on specifics whilst the value of charges and standards are yet to be determined</b>	<ul style="list-style-type: none"> <li>We recognise the challenge. However, we have isolated and focused on agreeing the principles before applying values to avoid conflating the two.</li> <li>We are currently determining the process for discussing and agreeing the values, which will be the next step.</li> <li>We anticipate this will involve another consultation.</li> <li>We welcome suggestions from the industry on factors and inputs to consider when calculating costs.</li> </ul>	<b>Acknowledged and minded to progress (to enable stakeholders to input on proposed standards and charges)</b>
T6	<b>If performance standards are maintained outside the code, there still needs to be a clearly prescribed governance process that mandates an evidence base for changes and affords parties visibility and time to adapt.</b>	<ul style="list-style-type: none"> <li>The proposed solution seeks to balance certainty with flexibility</li> <li>We propose that a change process governed by the PAC, and which is set out in the codes (e.g. with requirements on an evidence base for change, limits to the rate and degree of change, and requirements for engagement, visibility and notice to TPs) provides an effective compromise between certainty and flexibility</li> <li>It also reduces the dependency on other bodies (e.g., Ofwat) and changes (E.g., code change) and empowers a purposefully created industry group to make impactful decisions more quickly.</li> </ul>	<b>Agree – minded to progress with a clearly defined process for changing standards (see also T3)</b>

# Additional themes

Ref	Theme	MOSL Considerations	Current Position
T8	<b>Calibration of standards and determination of charge values for the financial tools (and frequency of application) needs to ensure that market competition, stability and viability (including for new entrants) is not:</b> put at risk; does not create unmitigated follow-on impacts on other KPIs/activities; and prioritises getting performance right over generating funds for use elsewhere.	<ul style="list-style-type: none"> <li>We agree the calibration of standards and determination of charges for the financial tools needs to ensure that market competition, stability and trading party viability (including for new entrants) is not put at risk</li> <li>For clarity, there is no proposal to set the minimum performance standard to ensure a particular level of funding for either outperformance payments or the Market Improvement Fund</li> <li>It is accepted that if there are no performance charges, there would be no funds available.</li> </ul>	<b>Agree – minded to progress so that performance improvements and risk mitigation lead the calibration of standards and charges</b>
T10	<b>Charges and/or standards should not be confirmed and applied until after a period of testing and calibration.</b>	<ul style="list-style-type: none"> <li>We will ensure charges and standards are not confirmed and applied in the MPF until after an appropriate period of testing and calibration.</li> </ul>	<b>Agree – standards and charges will be tested before implementation (see also T1, T15, T20)</b>
T11	<b>Proposals lack parity in the treatment of Wholesalers and Retailers.</b>	<ul style="list-style-type: none"> <li>Fundamentally, the reformed MPF is being determined against current code obligations and is focusing on activities which have been considered of highest priority.</li> <li>In time, code changes may be progressed to create or change obligations and the MPF design will be updated to accommodate these changes.</li> <li>MOSL remains open to working with trading parties where obligations are sought to be changed.</li> </ul>	<b>Minded not to take forward under MPF reform (see also M01, T5, T22)</b>

# Additional themes

Ref	Theme	MOSL Considerations	Current Position
T13	<b>The MPF needs to be able to adapt its reliance on financial interventions in recognition of natural incentives for Retailers.</b>	<ul style="list-style-type: none"> <li>We recognise that there are natural (i.e. competitive) incentives on Retailers.</li> <li>However, the market's current performance (as evidenced by MPS/OPS, Ofwat, CCW, and others) indicate that these are not currently sufficient to ensure customers receive the appropriate speed or standard of service.</li> <li>A review of natural incentives in August 2022 noted they exist in the retail segment, but are currently ineffective.</li> <li>We are considering how natural incentives can be enhanced through the design phase of metrics. Should natural incentives become more effective in future, KPIs could be retired, performance standards modified and reliance on financial interventions reduced as appropriate.</li> </ul>	<b>Agree – minded to progress with a framework that can adapt alongside natural incentives</b>
T17	<b>There needs to be clarity on how the proposals avoid disincentivising parties from collaborating and mitigate the potential for trading parties 'gaming' the MPF</b>	<ul style="list-style-type: none"> <li>The KPIs should drive improved collaboration and innovation by setting stretching but achievable targets.</li> <li>The risks called out in T17 will be explored on each KPI and factored into setting the value of penalties, outperformance payments and compensation payments to avoid perverse disincentives against good customer service</li> <li>The PAC has various discretionary metrics at its disposal to look more closely at a trading party's performance and behaviour</li> <li>Trading Parties looking to 'game' the system to maximum payment potential (e.g., avoid penalties or qualify for payments) risk closer inspection/audits and the potential for reputational damage (i.e. by being 'called out') or financial penalties.</li> <li>A number of responses alluded to this concern with respect to compensation payments which will be factored into the further considerations under Theme 7.</li> </ul>	<b>Agree – minded to progress on the basis that KPIs seek to minimise the risks called out in T17 and additional metrics and audits may be used to provide further scrutiny as needed.</b>

# Additional themes

Ref	Theme	MOSL Considerations	Current Position
T18	<b>A review is necessary after implementation.</b>	<ul style="list-style-type: none"> <li>The MPF Reform Programme will carry out a post implementation review as per other Panel programmes and projects</li> <li>The framework will also be subject to regular a reviews by the Panel and Performance Assurance Committee as part of the enduring BAU governance.</li> </ul>	<b>Agree – minded to progress with programme and framework reviews</b>
T19	<b>It is not clear why there is no scope for compensation payments from Retailers to Wholesalers.</b>	<ul style="list-style-type: none"> <li>Minded to remove Compensation Payments as a tool at this stage.</li> </ul>	<b>Minded to remove compensation tool at this stage (see also T7)</b>
T21	<b>Proposals are unnecessarily complex and without evidence</b>	<ul style="list-style-type: none"> <li>Final proposals, including charge values and standards, will be supported by modelling and evidence.</li> <li>The proposals are not considered overly complicated to administer but we recognise the challenge in ensuring these are understood by the market before implementation.</li> </ul>	<b>Minded to disagree, but feedback is noted for future work</b>

**Next steps**



## Next steps

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- MOSL's 'minded-to' positions and revised MPF Programme Plan to be presented to the Steering Group on 9 October 2024
- The Steering Group will be asked to endorse MOSL's positions and MPF Programme Plan
- Following themes to be workshopped with the PAG in line with MPF programme:
  - Charging cap (Theme 12)
  - Outperformance payments (Theme 16)
  - Potential approaches to the MIF (Theme 16)
- Performance standards and charging values to be determined via further consultation