

MPF Reform Part B – Non- financial tools webinar

Watch the recording [here](#).
24 April 2024

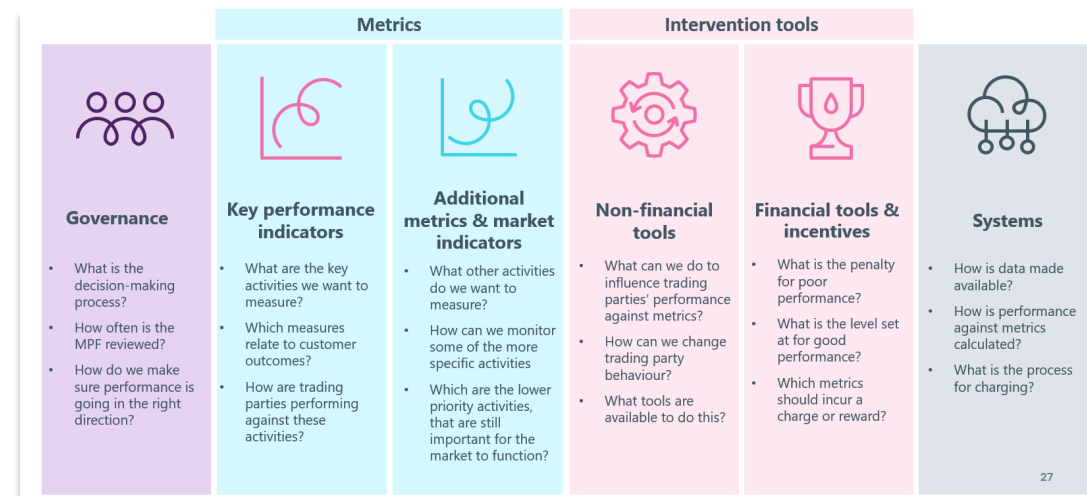
Purpose

This session

- Second in a series of webinars covering delivery of Parts A to E of the MPF Reform programme
- Proposed solution and code changes for Part B – Non-financial tools

Future sessions:

- 31 July: **Part C** - Metrics: KPIs
- 28 Aug: **Part D** - Financial tools
- Date TBC: **Part E** - Market indicators & additional metrics



Industry engagement

Consultation 3 (Autumn 2023):

- Participation good
- No fundamental issues re: non-financial tools, but good nuanced feedback

Since Consultation 3:

- MOSL SME/PAG workshops: 100s of contact hours
- Usefulness and relevance of some non-financial tools
- Easing admin burden on TPs in how tools are applied

Published

- Market code drafting and release notes
- Covering document for Part B – Non-financial tools



Non-financial tools model



Ref	Tool	Impact of tool
T01	Market entry assurance	Assurance and preventative
T02	Assurance statement	Assurance, preventative and faciliatory
T06	Additional metric monitoring	Faciliatory
T07	Targeted audits	Assurance, preventative, corrective and faciliatory
T08	Rectification and escalation	Reputational, corrective and faciliatory

Financial tools and remaining non-financial tools delivered by Part D

- T03 – Data Audit
- T04 – Peer Comparison
- T05a – Penalty Payments
- T05b – Compensation Payments

Recap: Non-financial tools

Ref	Tool	Description
T01	Market entry assurance	Proposal to incorporate HVI access assurance
T02	Assurance statement	Proposal to update the criteria for which TPs provide written assurance that no material changes to operational capability.
T06	Additional metric monitoring	Further metrics that help MOSL identify and resolve specific underlying issues highlighted by KPIs
T07	Targeted audits	Proposed for PAC to coordinate audits on key areas of risk and underperformance. Supplements metrics
T08	Rectification and escalation	Suite of rectification activities to be carried out at key points in the escalation of noncompliance/ underperformance.

What will change?



Non-financial tools

- Market entry assurance
- Assurance statement
- Additional metric monitoring
- Targeted audits
- Rectification and escalation

Current MPF

Not sure how and when tools will be used



Current tools are not agile/flexible



Not reviewed regularly



Reformed MPF

Clearer, simpler processes for intervention



Keeping the parts that work from current MPF



All tools defined under the MPF in the codes



Targeted audits used more effectively



Reminder: what success looks like

Facilitate improved customer outcomes

Enduring and agile

Improve trading party accountability

Transparent and proportionate

Support competition

Value for ££££

Consistency & compatibility with Regulatory regime

Simplicity



Summary: non-financial tools evolution from Consultation 3

Tool	Changes from Consultation 3 proposal
T01 Market Entry Assurance (pg. 6, 12 of 'Tools', pg. 7 of 'Governance')	<ul style="list-style-type: none">• Consultation 3 proposal:<ul style="list-style-type: none">• Performance Assurance Committee (PAC) approves or rejects Market Entry Applications (p7 of 'Governance').• CSD0001 (Market Entry Assurance and Market Re-assurance) and CSD 0002 (Market Performance Framework) consolidated to formalise MEA as a 'Tool' of reformed MPF.• Workshops with PAG identified:<ul style="list-style-type: none">• Expanding scope of MEA to include HVI access assurance would be complicated to implement without clear practical benefit, with MRA having to be retained anyway.• Disproportionate to introduce another decision-making layer into a process which is administered by the market operator and ultimately decided by Ofwat.• Given limited involvement expected of PAC and lack of practical changes proposed to the MEA process, PAG advice:<ul style="list-style-type: none">• Retain MEA as is. Don't treat as MPF 'Tool'. Any 'light-touch' advisory roles that the Market Performance Committee (MPC) currently has can be passed to PAC as an additional responsibility.

Summary: non-financial tools evolution from Consultation 3



Tool	Changes from Consultation 3 proposal
T02 Assurance Statements (pg. 6, 12 of 'Tools')	<ul style="list-style-type: none"> • Consultation 3 proposal: MOSL seeks assurance statements from trading parties on defined frequency (e.g. annually), which set out material changes to operations or capabilities. • Workshops with PAG identified: <ul style="list-style-type: none"> • Supportive that info to MOSL helps it proactively support parties but mechanism must be simple, 'light-touch' and cost-effective. • Proposed process and content of assurance statements as presented did not align with these aims. • Given concerns about the onus on Trading Parties, PAG supported an alternate mechanism: <ul style="list-style-type: none"> • T07 Trading Party Audit tool is used to provide required market assurance in a given year, with less overhead on Trading Parties. • Simpler and more proportionate as it uses an existing process instead of a new one. More agile as MOSL and PAC can flex frequency and scope of information requests based on the scale of effort versus anticipated reward. • More useful and informative than only focusing on compliance with MRA obligations. Under Trading Party Audit tool, PAC has better oversight of full spectrum of MPF information from parties in each performance year (allowing PAC to recognise where prioritisation is required to balance market benefits with impacts on parties).

Summary: non-financial tools evolution from Consultation 3

Tool	Changes from Consultation 3 proposal
T06 Additional Metric Monitoring (pg. 7, 15 on 'Tools')	<ul style="list-style-type: none">• MOSL proposes to clarify this Tool in line with PAG feedback:<ul style="list-style-type: none">• PAC responsible for creating or retiring Additional Metrics and Market Indicators, and that the PAC should have discretion in choosing how to develop and implement changes and engagement level.• Additional Metrics and Market Indicators stored in a non-code document approved and maintained by PAC.• Additional Metrics should not be individual to a party or confidential• PAC may request an audit based on trends around Market Indicators and Additional Metrics, subject to need• CAG proposal:<ul style="list-style-type: none">• PAC engagement with stakeholders at proportionate level to proposed change, and minimum notice period of one month.

Summary: non-financial tools evolution from Consultation 3

Tool	Changes from Consultation 3 proposal
T07 Targeted Audits (pg. 7, 15 on 'Tools')	<ul style="list-style-type: none">• MOSL proposes to clarify/modify tool in line with PAG feedback:• Name change from 'Targeted Audit' to 'Trading Party Audit' (or similar) to avoid confusion with current MPF.• Term and definition of tool flexible enough to cover a range of audit types, including those which are strategically planned (e.g., multi-party audits informed by Panel priorities) and those which are triggered by MPF metrics performance or compliance concerns.• <i>Each year, PAC invited to endorse a schedule of audits and that schedule made available to parties</i> and updated (ie. audits are re-scoped or re-prioritised) during the year.• <i>Detailed requirements for each audit set out in a statement of work</i> for the PAC to endorse• Trading Parties requirement to cooperate with audits, with interventions where they fail to do so (e.g. escalated to PAC (or Panel) if required).

Summary: non-financial tools evolution from Consultation 3

Tool	Changes from Consultation 3 proposal
<p>T08 Rectification and Escalation (pg. 7, 15,16 on 'Tools')</p>	<ul style="list-style-type: none"> • MOSL proposes to clarify/modify this tool in line with PAG feedback: • Most recent recommendations stand <i>as per the recently revised process</i> (albeit with PAC rather than MPC), • Letter of Concern activity should be codified and parties should be required to respond to these letters. • Initial Performance Rectification Plan step will be removed from Code for clarity. • Provision for the Strategic Panel to issue a public letter of concern • Persistent poor performance could be escalated as a potential breach of the Wholesale Retail Code (WRC) to Ofwat. In exceptional circumstances where standard rectification and escalation is having no sustained effect. PAC principles for determining cases to intervene are discretionary, but impartial and consistent and sit outside codes to keep the process flexible. • Performance against Additional Metrics could be used to trigger rectification and escalation (where there is an underlying code obligation). This is a change from the Consultation 3 proposal, but PAG has considered that these metrics may provide insight into areas which hold significance to customers but are not immediately represented by KPIs. • CAG recommended market codes specify: <ul style="list-style-type: none"> • detail on how and why performance issues may be escalated and de-escalated. • how a party that is subject to performance resolution processes may raise concerns.

Code drafting proposal

Documents

- Market Arrangements Code (MAC)
- CSD 0001: Market Entry Assurance and Market Re-assurance
- CSD 0002: Market Performance Framework
- Sch 1, Part 1: Objectives, Principles & Definitions
- Sch 1, Part 2: Business Terms
- Sch 1, Part 4: Market Terms



Code drafting proposal

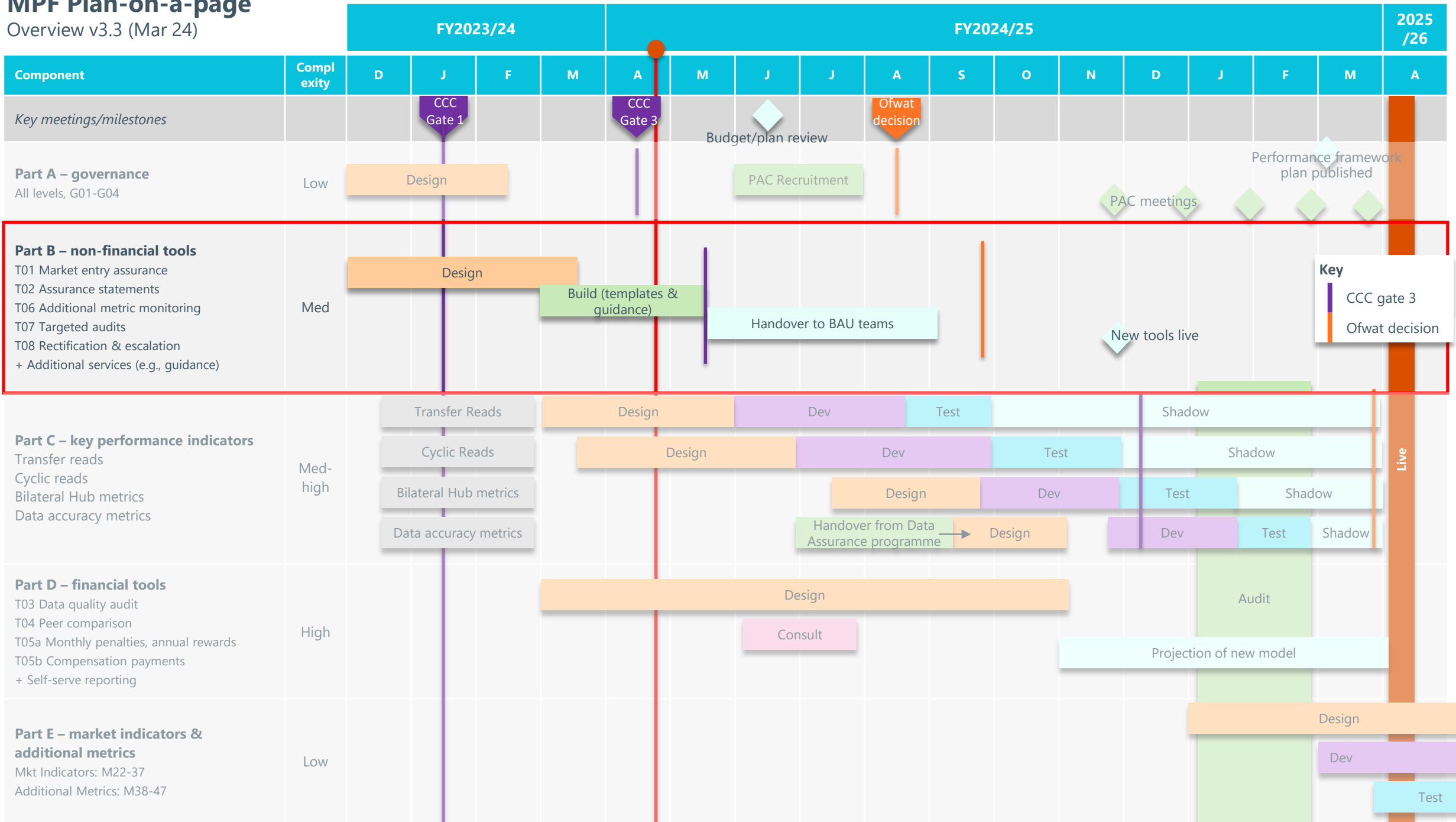
Rationale

- Removing references to IPRPs and Market Auditor (replace with Trading Party Auditor)
- Cross referencing fixed (CSD0001 to updated CSD0002)
- Codifying Letters of Concern, Remediation steps
- New definitions
- Clarification of market operator role in conducting Trading Party audits



MPF Plan-on-a-page

Overview v3.3 (Mar 24)



Key

- CCC gate 3
- Ofwat decision

Live

Next steps

- Part B to Code Change Committee in May
- PAC recruitment June/July
- Ofwat approval of Part A in August
- First PAC meeting November

Next Planning Update



Wednesday
29 May
2pm-3:30pm

MPF Part C Webinar



Wednesday
31 July
2pm-3:30pm

Contacts and useful links

- Questions about the MPF Reform programme to mpfreform@mosl.co.uk.
- Receive updates about the programme by signing up to the [MOSL mailing list](#)
- More information about MPF Reform programme on [the MOSL website](#)
- Original Tools documents for Consultation 3: [link](#)
- Non-financial tools webinar pre-reading: [link](#)
- Proposed code drafting to deliver MPF Part B: Tools: [link](#)
- Code drafting release notes: [link](#)



MOSL

Questions?

Your water bill

