Market Performance Framework

Performance Advisory Group – PAG01

15 June 2022

MOSL
MARKET OPERATOR SERVICES LTD

Agenda

1 **Welcome, Introductions & Background**

2 Terms of Reference

3 Programme Plan

4 Introduction to Risks & Issues Tracker

5 MPF Glossary (including Success Criteria)

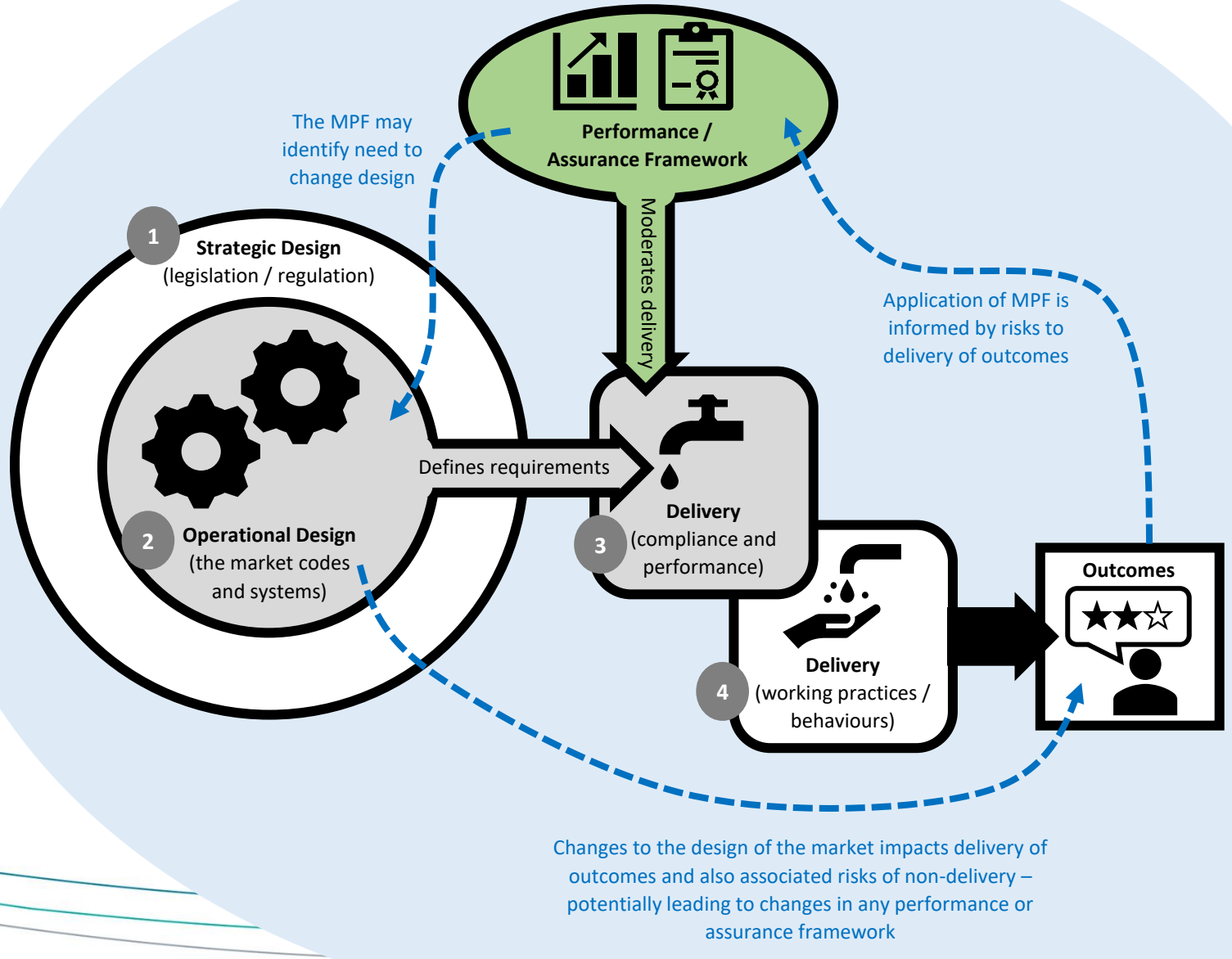
6 Any Other Business & Feedback

An MPF in Context – The MPF

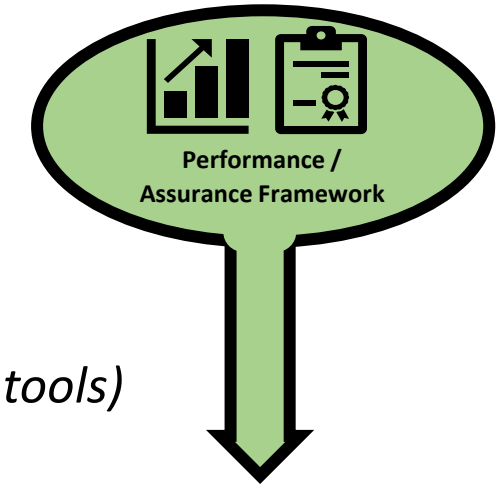
Where insufficient natural incentives exist, *Performance* or *Assurance* interventions can be applied to moderate delivery and influence working practices and behaviours by taking steps to:

- Prevent **risks becoming issues**
- Detect **where issues manifest**
- Correct **issues where they arise**

…and so provide comfort to stakeholders that the right outcomes are being delivered



Elements of a Market Performance Framework



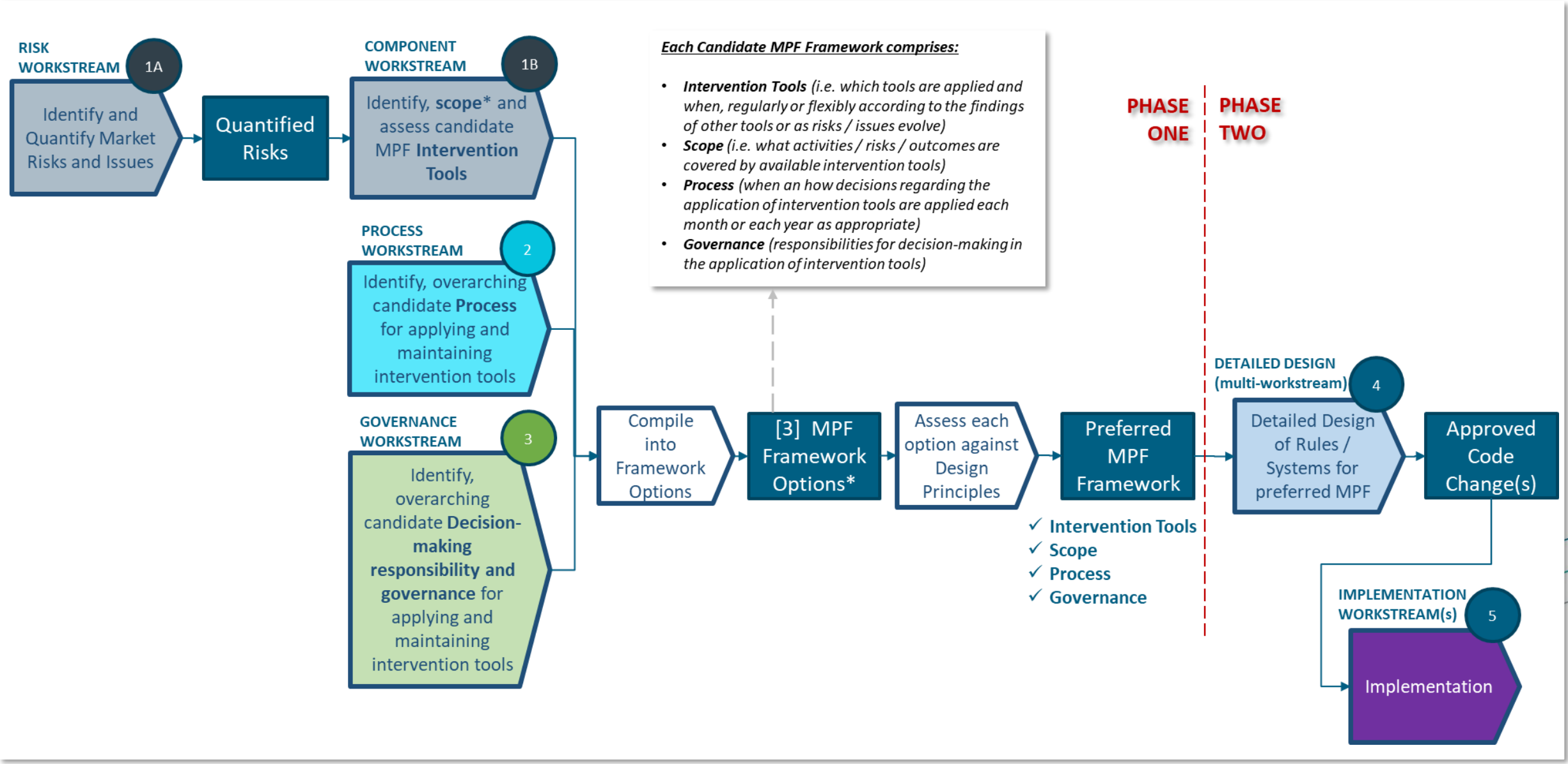
1. ***Intervention Tools***
   (i.e., which tools are applied and when, regularly or flexibly according to the findings of other tools or as risks / issues evolve)

2. ***Scope***
   (i.e., what activities / risks / outcomes are covered by available intervention tools)

3. ***Process***
   (when and how decisions regarding the application of intervention tools are applied each month or each year as appropriate)

4. ***Governance***
   (responsibilities for decision-making in the application of intervention tools)

Overview of MPF Reform Programme



Initial Focus: ‘Risk’ and Framework ‘Components’ Workstreams

1A: Market Risks and Issues Tracker

- **Aim:**

  To identify risks and issues which prevent the market from delivering on desired outcomes – either now or in the future

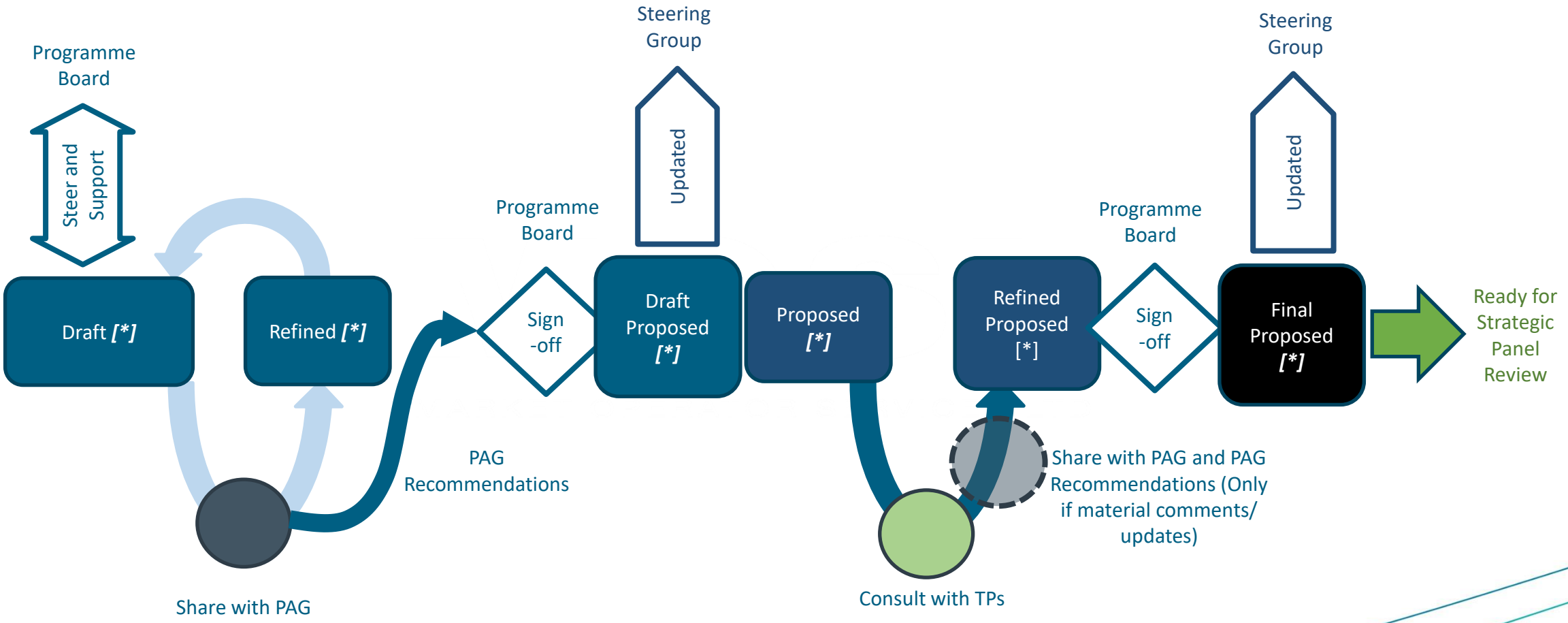
1B: Performance Intervention Components

- **Aim:**

  To identify candidate performance interventions that might comprise an alternative MPF.

  A target model will be identified from the alternative frameworks identified. This will include consideration of a model where there is no MPF

Decision making for Programme Deliverables



Dates of future meetings

Fortnightly (approx.) Wednesday 10:00 – 12:00

Q1 - Apr -Jun 2022	Q2 - Jul -Sept (2022)	Q3 - Oct -Dec (2022)	Q4 - Jan -Mar (2023)
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Strategy Panel **Steering Group** **Performance Advisory Group**

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Performance Advisory Group (PAG) Terms of Reference

Terms of Reference were signed off by the Steering Group in May (see – Appendix 2)

The PAG will be responsible for:

- Reviewing programme requirements and solutions
- Assisting in the design of market changes as requested

Performance Advisory Group Terms of Reference (cont)

The functions of the PAG

The PAG will support the solution design by reviewing programme requirements, solutions and change proposals which have been developed and designed by the programme team.

It will be specifically focused on the assessment of metrics, measures, and tools as identified by the programme team to support the future MPF, but will also need to provide input on the following:

- The design, build and testing of measures and interventions
- The expected benefits to the customer arising from the intended behaviours driven by the framework
- The possible unintended consequences to customers and/or trading parties (TPs) which may arise from application of the framework
- The state of readiness ahead of the framework's "go live" milestone. To achieve this the PAG will work with the MPFR programme team to ensure milestones are aligned and progress against milestones are reported. It will provide TPs own project teams with visibility of the programme plan and its progress as well as giving TPs the opportunity to ask questions. TPs will provide updates on their own progress against milestones to ensure the market delivery of the MPFR programme is aligned.
- As SMEs, the PAG may be asked by the MPFR programme team or the Panel to consider matters relating to change proposals or other matters relating to the MPFR Programme from time to time.

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MPF Reform Programme – High-level Plan - Overview

		Jun	Jun	Jul	Jul	Aug	Aug	Aug	Sep	Sep	Sep	Oct	Oct	Oct	Nov	Nov	Dec	Dec	Jan	Feb	Mar	Apr
PAG		15th	29th		20th	3rd	17th	31st		14th	28th		12th	26th	9th	23rd	7th	21st				
Programme Board		9th	23rd		21st	4th			8th			6th			9th		8th	TBC				
Steering Group				12th						13th					8th				10th			
Panel				13th							Tbc				15th					Tbc		
Deliverable	Pre-consult / post-consult ready date																					
Terms of Reference		PAG		P-Board																		
Glossary		PAG		P-Board																		
Introduction Risk and Issue tracker to PAG		PAG		P-Board																		
Introduction CFI and Steering Group - Tests		PAG		P-Board																		
Identify and Quantify Risks / Issues in Tracker		PAG	PAG		P-Board						Consult	Consult	Consult	Consult		[PAG]	[PAG]	P-Board	Ready			
Identify Activities that Support Market Outcomes			PAG		PAG	P-Board					Consult	Consult	Consult	Consult		[PAG]	[PAG]	P-Board	Ready			
Activities linked to Risks and Outcomes			PAG		PAG	P-Board					Consult	Consult	Consult	Consult		[PAG]	[PAG]	P-Board	Ready			
Consider Natural Incentives and Regulatory Incentives						PAG	PAG		P-Board		Consult	Consult	Consult	Consult		[PAG]	[PAG]	P-Board	Ready			
Activities to be covered by an MPF						PAG	PAG	PAG	P-Board		Consult	Consult	Consult	Consult		[PAG]	[PAG]	P-Board	Ready			
Develop Candidate Intervention Types							PAG	PAG	P-Board		Consult	Consult	Consult	Consult		[PAG]	[PAG]	P-Board	Ready			
Identify Candidate Metrics										[PAG]	PAG		PAG				P-Board	Consult	Consult	Consult		
Identify Candidate Intervention Tools										[PAG]	PAG		PAG				P-Board	Consult	Consult	Consult		
Compile into Framework Options														PAG	PAG		P-Board	Consult	Consult	Consult		
Assess Each Option Against CFI Principles															PAG	PAG	P-Board	Consult	Consult	Consult		

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Market Risks and Issue Tracker

Aim:

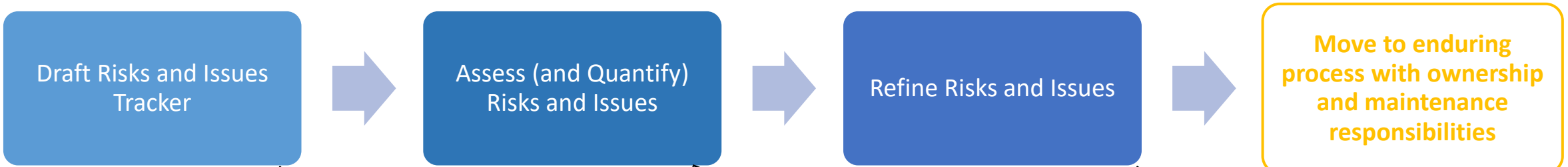
- To identify risks and issues which prevent the market from delivering on desired outcomes – either now or in the future

Having a better understanding of all material risks and issues will help to:

- Identify priority areas that are creating issues for customers, retailers or wholesalers and require potential intervention;
- Assess which of these areas should be considered within the scope of any future MPF;
- Assess whether there are any gaps on potential interventions or a lack of clarity as to who should deliver these; and
- Be better able to measure these risks (scale and impact) and how they are changing over time.

Overview of Risk and Issue Workstream

BROAD STEPS



DETAILED ACTION

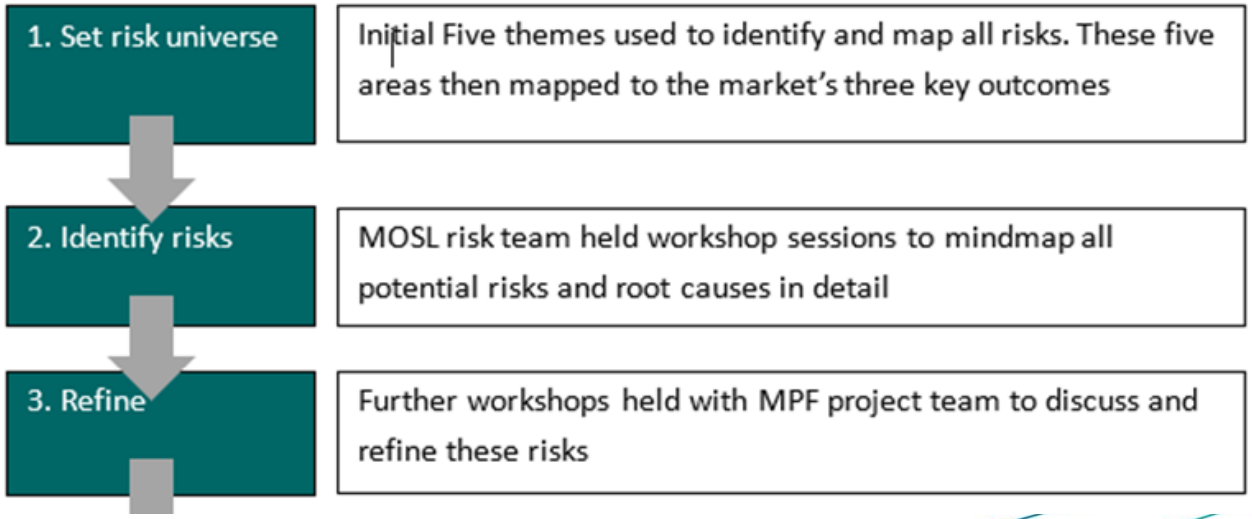
Overview of Risk and Issue Workstream

We have prepared an initial draft of Risks and Issues.

34 Risks

Aligned to strategic panel outcomes:

- Customer Service Excellence
- Water Efficiency is Core
- Value Creation



Overview of Risk and Issue Workstream

Designed to allow consistent scoring between risks and to consider the impact of risks on Customers, Retailers and Wholesalers separately

- Primary scoring of risks is based on customer impact to ensure customer focus of the eventual MPF framework
- Secondary scoring of risks is based on the impact to Retailers and Wholesalers

Customer score is derived from:
'Volume of Customers impacted'
x
'Level of Impact to an individual Customer'

Wholesaler and Retailer impact assessed on these groups as a whole

Risk Scoring Framework

- **A score of 1 (low) to 3 (high) is applied for each measure**
- **To measure impact, we considered the potential affect on a range of areas:**
  - Customers - included financial, customer experience, information to make consumption choices
  - Wholesalers/Retailers - included the impact on revenue, settlement, other costs, customer satisfaction, other operational impact (e.g. ODIs)
- **Used % indicators in setting thresholds for scoring – however, these are indicative only - for most risks a precise calculation of impact is not possible and an element of judgment was applied**
- **As tracker evolves we expect to refine measures and thresholds**

Risk Summary Example

ID	Title
BRS001	Meter reads not taken due to issues with meter itself (physical location, condition, technology)

Root Causes	Meter cannot be read due to broken or damaged meter
	Meter cannot be read due to health & safety concerns for either the customer or meter reader.
	Meter cannot be located and read due to meter reader requiring access permissions
	Meter cannot be located and read by the meter reader due to insufficient or wrong equipment
	Meter cannot be read as the meter reader cannot access the meter's technology

Scoring			
Impacted party	Score	Reason	Rationale
No. of SPIDs potentially impacted	3	100,000	- c.160k LUMs in the Market - Skip sample data suggests 60% of these are due to listed root causes. c. 100k SPIDs - 26% of R3 & RF settlement based on estimated reads
Individual customer impact (1 - 3)	3	Financial, Choice	- Customers receive estimated bills, likely to be >5% variance to actuals - Customer has no usable consumption data upon which to make decisions
Combined Customer (1 - 9)	9		
Retailer impact (1 -3)	3	Settlement, Other Costs, Revenue	Reduced meter reads impacts accuracy of settlement and revenue, as well as driving costs from repeat attempts to read meters and customer queries on bills.
Wholesaler impact (1 - 3)	3	Settlement, Operational	Reduced meter reads impacts accuracy of settlement. Given NHH represents one third of total consumption potential material impact on water balance calculation and leakage performance.

Accountable Party	
0%	Retailer
100%	Wholesaler
0%	MOSL
0%	Other [please name]

Framework to mitigate	MPF
Current market levers	MPS: 13, 14, 17, 18 & 19 APIs: LLUM, LUM & LTV

KPI to measure performance

Date identified	xx/xx/xx
Date for next review	xx/xx/xx

Risk and Issue Tracker Next Steps

- Initial view on data points for each risk has been completed.
- We are currently checking these data points and reviewing to ensure they are the most relevant.
- For some risks there are gaps where data is not available to measure current impact.
- An initial draft has been shared with Ofwat and more widely within MOSL.
- Further updates are being made based on feedback received.
- We will share an updated with the PAG for review on 29th June.

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MPF Glossary including Success Criteria (See Appendix 3)

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An Explanation of Governance, Methodologies and Principles

Aim: To introduce stakeholders to the background of the programme

Explanation of:

- Structure
- Roles
- Responsibilities
- Governance Model

Referenced earlier by the scheduled meetings:

- Steering Group
- Panel briefings
- PAG

STRUCTURE

Identification of:

- Risks
- Activities
- Intervention
- Categories
  - Types & Tools

Referenced earlier by the workstreams for:

- Risks (1a)
- Components (1b)

RISKS & FRAMEWORKS

Definition of principles derived from the call for Inputs (CFI)

Referenced in the next slide as the basis for the Programme's success criteria

SUCCESS CRITERIA

A Glossary of terms

Aim: To establish a common language around terms

Term	Industry Abbreviation	Category	Description
Absolute and relative Performance		MPF Reform Terminology[*1]	Intervention Types. Absolute performance assesses individual trading party performance against a defined target. Relative Performance uses peer comparison to rank a trading party against its peers. Relative performance can be combined with absolute performance to establish the rank of a TP within its peer group while representing its ability to meet a defined target
Actual Read		Operational/ Finance Process	A meter reading that was entered to record a visual read of the meter
Additional Metric Monitoring		Compliance Tool	Additional Metric Monitoring might include provision to track and measure specific metrics on emerging risks
Additional Performance Indicator	API	Compliance Tool	An Additional Performance Indicator is a tool to review and monitor performance against a specific task or measure. APIs can be used to trigger Initial Performance Rectification Plans if the performance measured is not deemed as acceptable. APIs cannot carry financial incentives unless supported by a change in code
Asset Data		Data Point	Specifically, the definition of the meter by its serial number, manufacturer, make, age, location, GIS co-ordinates and functionality. GIS is an API and is represented in the holistic reports for wholesalers

TERMS

Success Criteria – Design Principles

1. *Design Principles proposed in autumn 2021 Call for Inputs*

2. *Amended and updated following review by MPF Reform Steering Group*

Overarching aim: to improve upon the current MPF while ensuring it is aligned to the Strategic Panel's Outcomes – Creating Value, Great Customer Service and Water Efficiency

1	Facilitate Improved Customer Outcomes
2	Improve Trading Party Accountability
3	Support Competition
4	Consistency & Compatibility with Regulatory Regime
5	Enduring and Agile
6	Transparent and proportionate
7	Value for money
8	Simplicity

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