

Market Performance Framework

*PAG Workshop on Governance
(Bespoke Processes)*

6 December 2023

A photograph of a person's hands typing on a laptop keyboard. The laptop screen displays a presentation slide with the text 'MARKET VALUE ADDED' in large, bold, black letters. Below this text are two lines of smaller text: '#search #business #concept' and '#keywords #design #innovate'. The slide has a light beige background with a white border. The laptop is on a wooden desk, and the person is wearing a white shirt. The background of the entire image is a teal color with a white geometric shape on the left side containing the main text.

**MARKET
VALUE
ADDED**

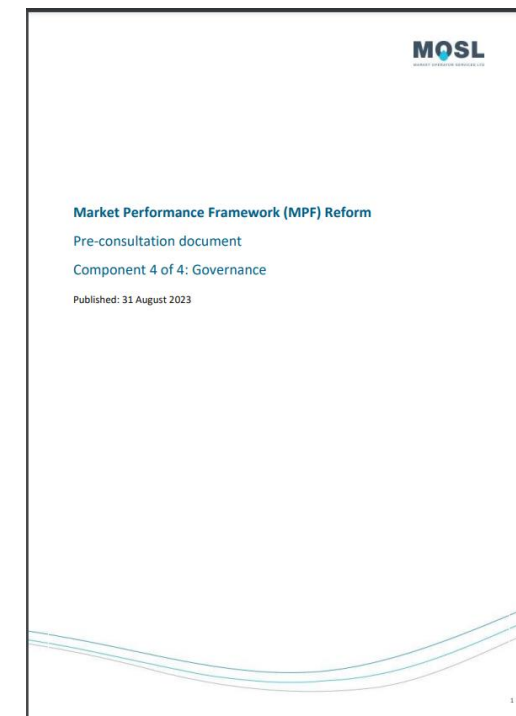
#search #business #concept
#keywords #design #innovate

Agenda

	Item	Presenter	Time
1	Welcome & update	Chair	5 mins
2	Governance (Bespoke Processes) <ul style="list-style-type: none">• Recap• Considerations• Processes	Oliver Robins	110 mins
3	Upcoming PAG workshop(s) & AOB	Chair	5 mins
			Total: 1.5 hour

Governance recap

- Objectives and Principles
 - Provide oversight, monitor and measure the delivery of key market activities, deploy rectification measures
 - Focus on key risks and issues; be clearly defined, agile and ‘light touch’; support market evolution and self-governance; delegate decisions; translate strategy into practice
- Governance Levels
 - (1) MOSL = operational
 - (2) Performance Assurance Committee (PAC) = operational and tactical
 - (3) Strategic Panel = strategic
 - (4) Ofwat = strategic and contractual
- Performance Periods
 - Series of activities and outputs facilitating periodic strategic reviews
- Bespoke processes
 - Changes to the MPF will be handled proportionately
 - Material changes (e.g., introducing or retiring a KPI) will require changes to the market codes
 - Less material changes (updating target performance levels for KPIs, choosing which KPIs to report publicly, creating new market indicators and additional metrics) will be managed through bespoke processes

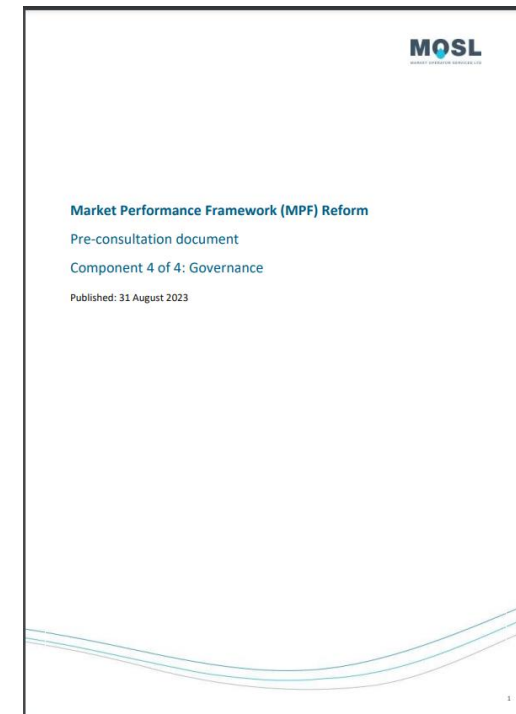


Consultation 3 doc

Governance recap

- Objectives and Principles
 - Provide oversight, monitor and measure the delivery of key market activities, deploy rectification measures
 - Focus on key risks and issues; be clearly defined, agile and ‘light touch’; support market evolution and self-governance; delegate decisions; translate strategy into practice
- Governance Levels
 - (1) MOSL = operational
 - (2) Performance Assurance Committee (PAC) = operational and tactical
 - (3) Strategic Panel = strategic
 - (4) Ofwat = strategic and contractual
- Performance Periods
 - Series of activities and outputs facilitating periodic strategic reviews

- Bespoke processes
 - Changes to the MPF will be handled proportionately
 - Material changes (e.g., introducing or retiring a KPI) will require changes to the market codes
 - Less material changes (updating target performance levels for KPIs, choosing which KPIs to report publicly, creating new market indicators and additional metrics) will be managed through bespoke processes



[Consultation 3 doc](#)

Bespoke Processes

- Target Performance Levels for KPIs
 - Maintained outside the code change process by the PAC (but this process will be defined in the market codes)
 - Target Performance Levels may be consulted on periodically, and **always** before any changes are made
- Developing other Metrics
 - Market Indicators = metrics that help assess whether overall performance is improving across the market and that the KPIs and tools being used are proving effective.
 - Additional Metrics = metrics which may indicate areas of concern that need further investigation using discretionary tools (such as audits) and are therefore worth monitoring, but do not correlate to individual performance as strongly as KPIs and will not be treated as such.
 - PAC will be responsible for how these metrics are changed, and this process will be defined in the market codes.
- Reporting KPIs
 - All KPIs (primary metrics used to measure a trading party's performance and applied against financial and non-financial intervention tools) **will be defined in the code**
 - PAC will be responsible for choosing how to report these KPIs (i.e., used in public or industry peer comparisons only), and this process will also be defined in the market codes

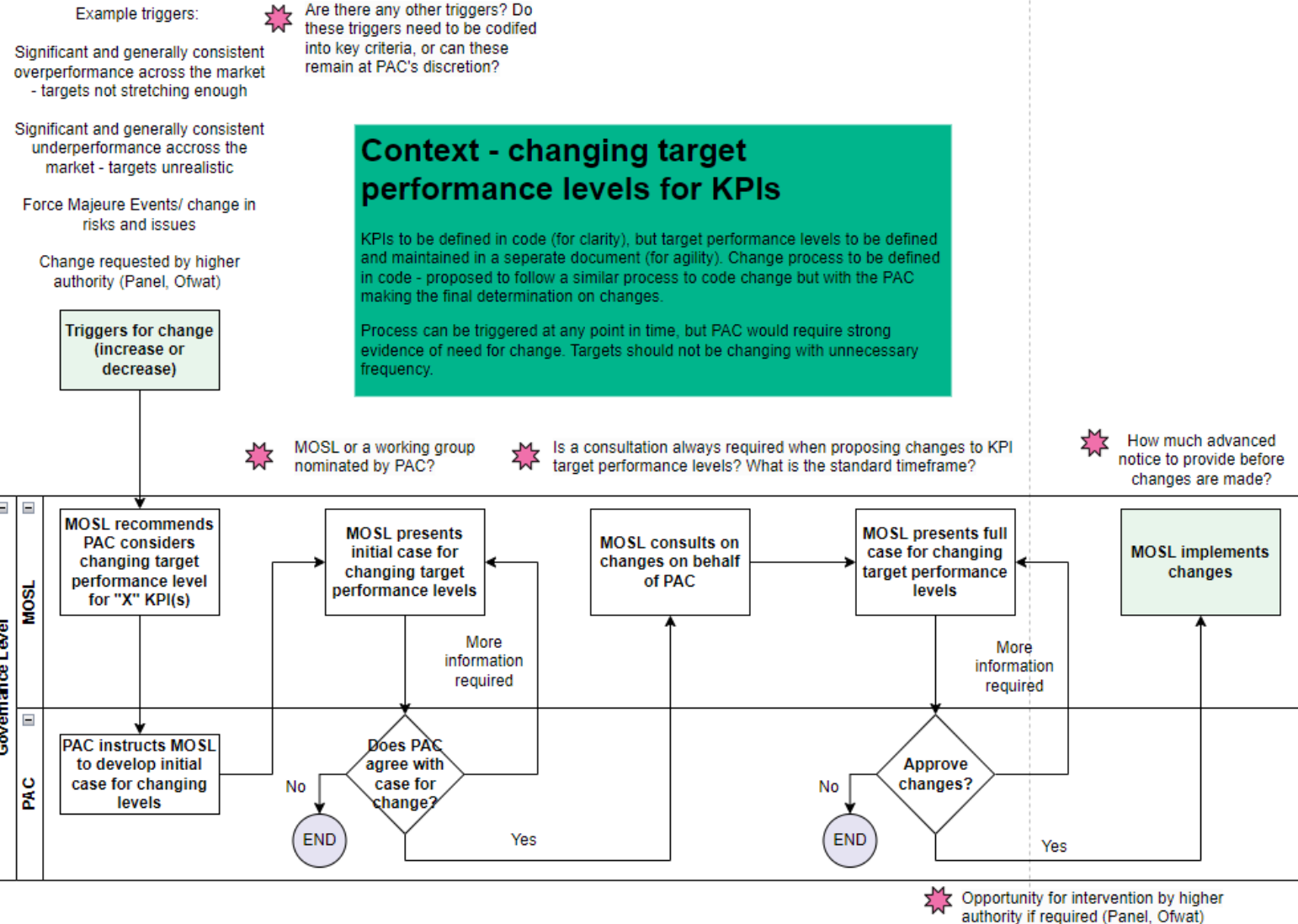


Considerations when reviewing bespoke processes

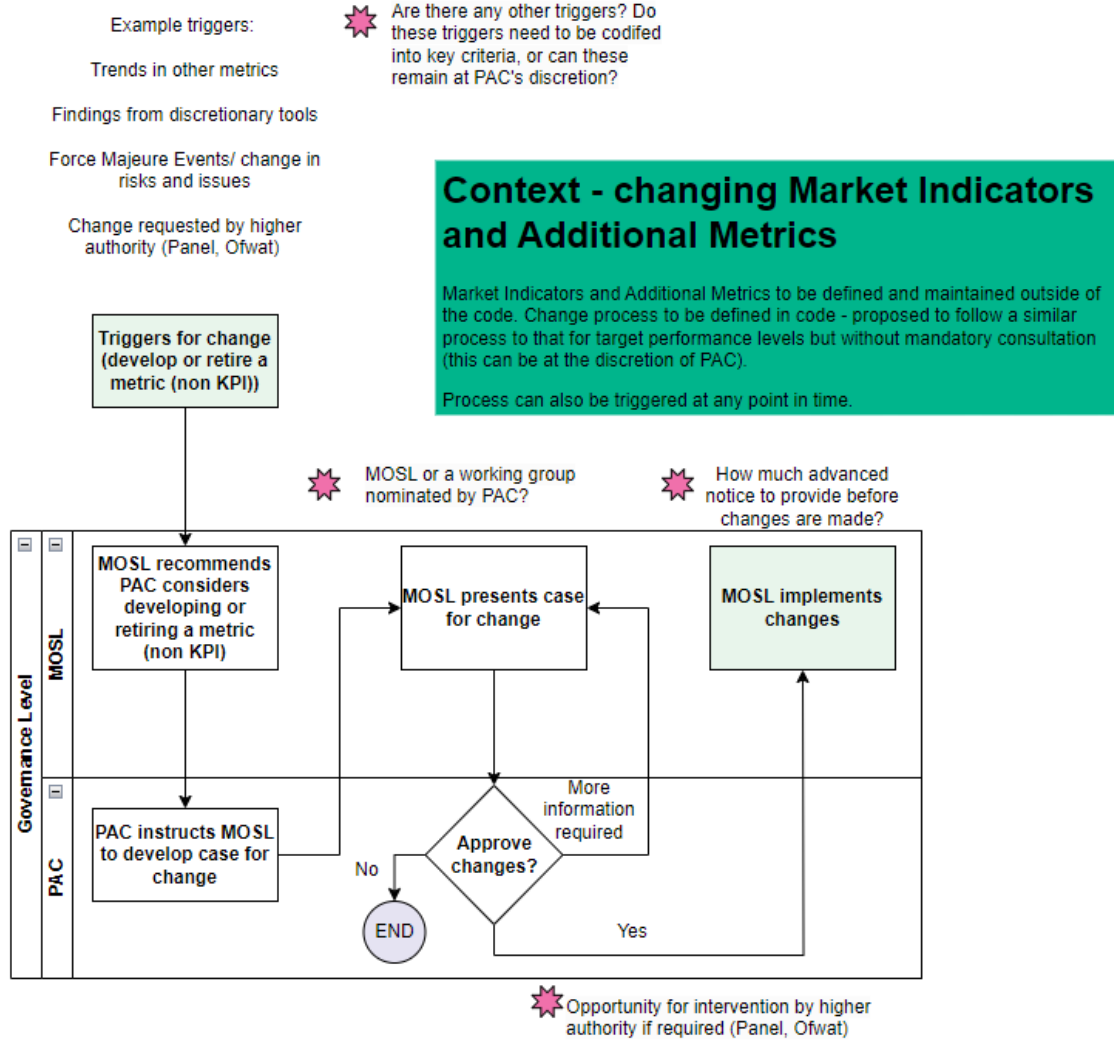
- Target Performance Levels & Developing Other Metrics
 - What are the likely triggers for changing target performance levels/other metrics? Do these need to be formalised?
 - Who is responsible for developing cases for change?
 - Should changes always be consulted on by default? What methods and timescales should be followed?
 - How much notice of changes is reasonable?
- Reporting KPIs
 - Should KPIs be reported in public peer comparison as standard (and removed from public view by exception), or should public peer comparisons be reserved for a limited number of KPIs (with PAC reviewing this list annually)
 - In what circumstances would a KPI need to be removed from a public peer comparison? Do these conditions need to be codified?
 - How much notice of changes is reasonable?



Process Flows



Process Flows



Process Flows

Context - Publishing KPIs

KPIs to be defined in code (for clarity), PAC to determine which KPIs map to which type of peer comparison. Two possible models:

- 1) All KPIs to be reported using public peer comparison as standard. PAC to remove KPIs from public view in exceptional circumstances.
- 2) PAC makes a regular (e.g., annual) decision on which KPIs map to which type of peer comparison.

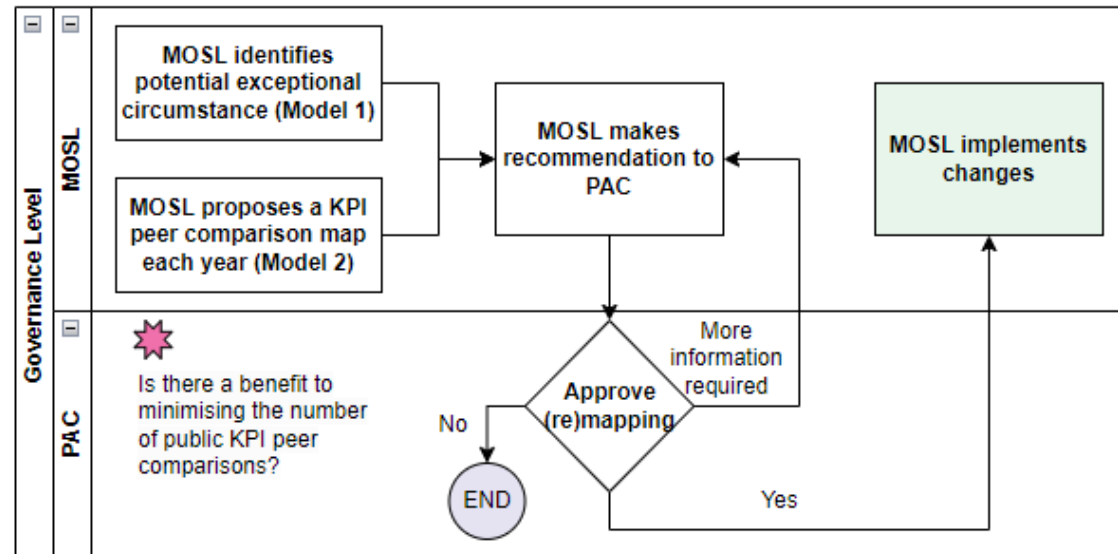
*Separately, at the point of a new KPI being created, these will initially be reported through industry only peer comparison (as part of shadow reporting)



Example exceptional circumstances (for model 1)? Do these triggers need to be codified into key criteria, or can these remain at PAC's discretion?



MOSL or a working group nominated by PAC?



How much advanced notice to provide before changes are made?



Opportunity for intervention by higher authority if required (Panel, Ofwat)

Upcoming PAG workshop(s)

Date	For discussion	Detail
6.12.23	Bespoke processes	<ul style="list-style-type: none">Processes for 1) changing KPI targets, 2) determining which KPIs to map to which peer comparison type for given period, and 3) changing market indicators and additional metrics
20.12.23	Composition, roles and responsibilities + updates from 6.12.23	<ul style="list-style-type: none">Proposed composition, roles and responsibilities at each layerDetailed decisions within tools
10.01.24	Performance periods, key documents and processes + updates from 20.12.23	<ul style="list-style-type: none">High level example view of performance periods, key documents and processes
23.01.24	Implementation approach + updates from 10.01.24	<ul style="list-style-type: none">Overview of current and proposed code architectureProposed timetable and method of transition

MOSL

