

Market Performance Framework (MPF) Reform

PAG workshop on Part B tools (final viewing)

3 April 2024

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 horizontal lines. Underneath the lines, there are two lines of smaller text: '#search #business #concept' and '#keywords #design #innovate'. The background of the slide is a light beige color with a white border around the text area. The laptop is on a wooden desk, and the person is wearing a white shirt sleeve.

MARKET
VALUE
ADDED

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

Agenda

	Item	Presenter	Time
1	Welcome & update	Chris Dawson (Chair)	10 mins
2	T08 Rectification & Escalation	Abu Rashid	15 mins
3	T01 Market Entry Assurance	Oli Robins	15 mins
4	T02 Assurance Statements	Oli Robins	40 mins
5	Upcoming PAG workshop(s) & AOB	Chris Dawson	10 mins
			Total: 90 mins

Housekeeping



Welcome all (new and well established)



Workshop format
Minutes and slides

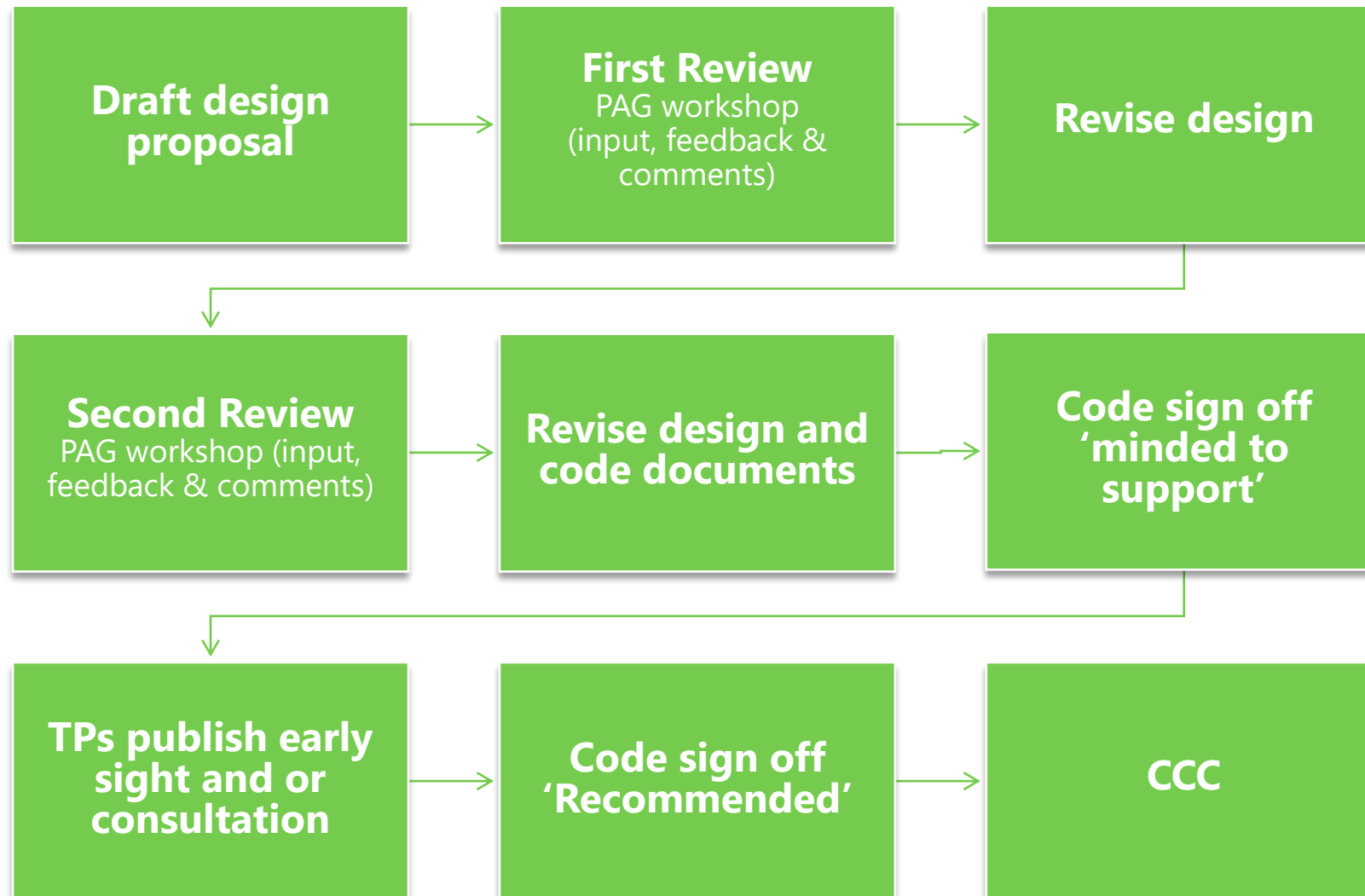


Please introduce yourself



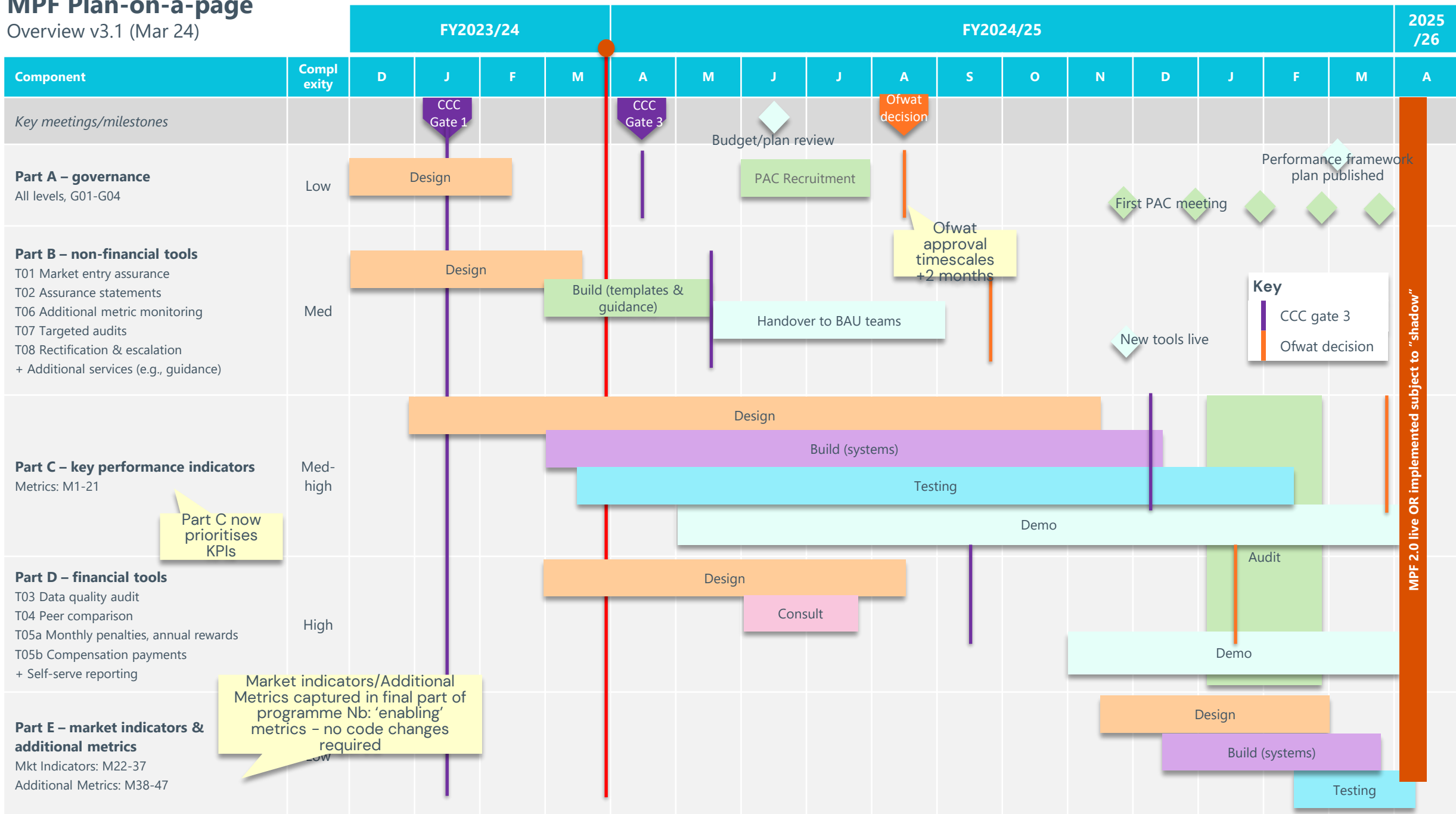
Chat and Questions

Detailed design approval process



MPF Plan-on-a-page

Overview v3.1 (Mar 24)



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Key design principles (1/2)

1. KPIs

- How each KPI is defined and calculated (and how any associated charges are calculated, if applicable) will be set in code
- KPIs can only be created, removed or changed through changes to the code

2. Target Performance Levels

- Target performance levels for KPIs (excluding those used for BR-MeX incentives) will be defined outside code. The PAC is responsible for maintaining these.
- The code will set out the steps that must be followed for PAC to change these. Changes must be consulted on, and parties must be given notice of changes

3. Other metrics

- Market metrics (Market Indicators and Additional Metrics) will be defined and maintained outside of code. The PAC is responsible for these (API process is driven by MOSL currently).
- The code will set out the steps that must be followed for PAC to change these. Parties must be given notice of changes

Key design principles (2/2)

4. Performance Assurance Committee (PAC) meetings

- PAC will meet quarterly as a minimum, more frequently as required.

5. Reporting metrics

- KPIs will be presented through public peer comparisons which rank parties against each other, with the target performance level clearly shown
- The PAC may remove peer comparisons from public viewing in exceptional circumstances
- Market Metrics (i.e. Additional Metrics and Market Indicators) can be presented on dashboards that are publicly accessible, but there will be no direct ranking of parties against one another. The PAC may request ranked views of these metrics.

6. BR-MeX

- Only KPIs can be used to inform BR-MeX incentives
- Where Ofwat has chosen a KPI for BR-MeX, its link to BR-MeX will be set in code
- Such KPIs will be reported through MPF peer comparisons, but will not incur penalties or rewards through the MPF (although it may still require a Wholesaler to directly compensate a Retailer)
- Where performance against a KPI used in BR-MeX is low, Ofwat will determine outcomes in terms of any relevant BR-MeX outperformance payments or underperformance penalties
- The relevant KPI and its link to BR-MeX cannot be changed outside a code change.

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T08 - Rectification & Escalation

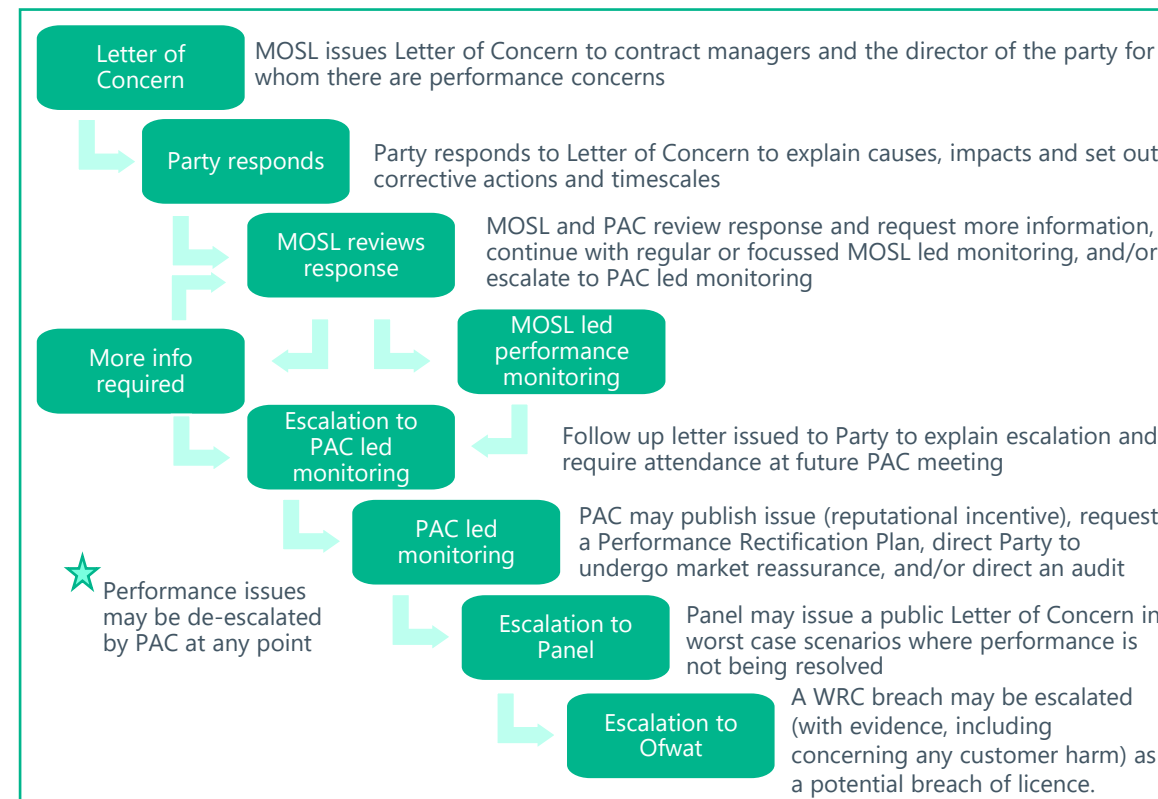
Impact: Reputational , Corrective and Facilitatory

Type: Discretionary Tool, to be applied by PAC as required

How will this work in MPF 2.0?

- Rectification and Escalation in MPF 2.0 proposed to be largely performed [as per the recently revised process](#), noting that PAC will replace the MPC (so route of escalation is MOSL > PAC > Panel).
- PAC to meet quarterly as a minimum, more frequently as required
- The first step where poor performance is being sustained and/or having a significant impact, will see MOSL issuing a Letter of Concern. Parties will be now required by code to respond to these letters
- The Initial Performance Rectification Plan step will be removed from code for clarity
- There will be a new provision for the Strategic Panel to issue a public letter of concern in worst case scenarios where issues have been escalated
- Potential license breaches may be escalated to Ofwat.
- The [current working practice document](#) will be updated along with the code. This working practice document will be owned by Panel and reviewed annually

Summary of proposed process (based on recently revised process [as set out in working practice](#))



T08 - Rectification & Escalation

Workshop questions:

1. Should these activities be limited to KPIs or also extended to Additional Metrics?
2. What areas of rectification and escalation can be improved?
3. What factors should MOSL consider before escalating an issue to PAC?
4. Should the process define triggers/criteria for interventions by MOSL and PAC or should these be discretionary?
5. What level of detail needs to be set out in code (e.g., general roles and responsibilities vs detailed process and content of rectification activities)?
6. Is there value in establishing a formal, bespoke challenge process for rectification and escalation?
7. What should a letter of concern (and response to such) be required to set out?

T08 - Rectification & Escalation (continued)

How could rectification & escalation work alongside other tools?

- T01 - n/a
- T02 - PAC may require a party to undergo Market Re-assurance (MRA) as part of rectification.
- T06 - Performance against Additional Metrics could be used to trigger rectification and escalation, or at least used to inform rectification activities (see PAC principles, right). Over time, rectification and escalation may identify new metrics for consideration
- T07 - Audit findings may be a trigger for rectification and escalation (as PAC will want to see issues/non-compliances being addressed and resolved). An audit activity may be pursued as part of checking rectification or investigating underperformance.

PAC principles for rectification & escalation

- PAC will constitute a group of effective decision makers who will be independent of MOSL.
- PAC will not rely on arbitrary triggers to intervene on performance issues. A binary mechanical approach could prove restrictive, inefficient, and offer less value than an approach which would allow the PAC to consider a range of information from different sources prior to intervening (or not intervening).
- Specific interventions (or lack of) by the PAC will reflect the specific performance scenario and any contributing factors. Where performance is poor the minimum time elapsed before rectification action will be at least one month. The maximum time will depend on the scenario.
- Example factors PAC **may consider at their discretion** when determining interventions include:
 - How is the party performing across all other metrics (not just a select KPI)?
 - How is the party performing relative to its peers (particularly those of a similar size, operating model, customer base, geography etc)?
 - What is the impact of performance on customers, other parties, and market as a whole?
 - Can drops or other trends be explained and justified?
 - What is the history of performance (e.g., are there any intermittent but repeating/regular patterns which could indicate unique issues or gaming behaviours)?
 - Is an audit required to assist in identifying and decoding any of the above?
 - What is the expected value of intervention?
 - Is the target performance level for the relevant KPI(s) set at a reasonable level?
- The meetings of the PAC shall be held in open forum except to the extent that confidential information will be considered (e.g. relating to the performance of a particular TP) or personal privacy matters arise. This will be a code obligation which mirrors that for Panel and CCC.

T08 - Rectification & Escalation – key discussion points

What should a response to a letter of concern be required to set out?

- The codes should require a substantive response from the recipient, directly addressing each point of concern and outlining next step actions if requested.

What should happen in the case of persistent poor performance?

- Persistent poor performance could be escalated as a potential WRC breach to Ofwat, where it is likely that such a breach and any associated harms might elicit action from Ofwat, in line with Ofwat's policy as set out in Enforcement guidelines. This should be in exceptional circumstances where standard rectification and escalation is having no sustained effect.

Are the PAC principles for rectification and escalation (see previous slide) suitable?

- General agreement but it is important that these are guiding principles and kept flexible/discretionary.
- These principles should not constrain PAC (e.g., PAC should not be required to consider all metrics in every individual case of reviewing performance).
- The “expected value of intervention” should focus on individual customer outcomes to ensure that the performance of all trading parties (not just larger parties) can be subject to intervention.
- Needs to be proportionate and balanced – aim to capture enough points of detail without restricting the PAC

New question: Should the PAC principles be set out in code or in the PAC terms of reference?

Any other comments or questions?

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Update to T01 Market Entry Assurance (MEA)

Summary of PAG discussions:

- The PAG has noted the importance of MEA but has also noted the limited role for the Performance Assurance Committee (PAC) in decision-making. Therefore, the advice from PAG is to keep things simple, and retain MEA as MOSL operates today without conceptualizing MEA as a 'tool' of the MPF.
- This means passing over the advisory role of the Market Performance Committee to the PAC (see below).
- If MEA needs improving in the future, this can be achieved through code change regardless of MEA being a 'tool' of the MPF or not. The PAC could also assure MOSL's own performance on MEA on occasion.

MPC responsibilities for MEA to handover to PAC

- MAC 5.2.1(e) *"provide advice, recommendations and support to the Market Operator on request in order to assist a Trading Party in successfully carrying out and satisfactorily completing the relevant Market Entry Assurance processes or the Market Re-assurance processes"*
- MAC schedule 10 *"such functions in relation to the Market Entry Assurance and Market Reassurance processes as the Panel may delegate to it from time to time"*
- Should PAC be requested to provide advice, recommendations and support, MOSL will ensure that members are familiar with the relevant processes and subject matter beforehand.

Any further comments or questions?

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Update to T02 Assurance Statements

What is the link between assurance and the MPF?

As well as monitoring and incentivising performance, the MPF should be able to assure the market that material changes in trading party systems and resources and associated risks (including to performance and therefore customer experience) are being managed.

The MPF can provide a degree of market assurance by confirming whether parties are compliant with their Market Reassurance obligations in CSD 0001 (Market Entry Assurance and Market Reassurance).

Market Reassurance does not only benefit the party going through reassurance. It provides comfort that other parties (and customers) are protected from unintentional consequences that may stem from unchecked change.

The MPF can also provide market assurance by obtaining key information for the market operator to proactively manage risks and support parties through change.

The more accurate information that can be obtained, the greater support that can be provided (e.g., MOSL may identify and assist parties in advance of a middleware system being replaced or an interface being updated).

Any comments or questions?

Update to T02 Assurance Statements

PAG feedback on original proposal

Whilst it may be useful to confirm that MRA obligations are being met and obtain key information to proactively support parties through change, any mechanism to do this should be **simple, light touch and cost-effective**.

The example assurance statements shown at PAG32 and PAG33 is **a lot of information to regularly require of all parties**.

There is no significant benefit in codifying assurance statements as a tool **apart from being able to define next steps in cases of no response**.

Why not use the **T07 Trading Party Audit tool instead** to carry out the intended effect of assurance statements?

Update to T02 Assurance Statements

Possible solution: The mechanisms proposed under T02 could be carried out under the T07 Trading Party Audit tool rather than T02 being defined as its own MPF tool.

How could this work?

- Each year, PAC would be requested to endorse what (if any) information on key areas of change (e.g., systems, resources) MOSL has determined to request of parties as a form of audit.
- The PAC would confirm its approach in the Statement of Approach and Schedule of Audits.

Example for performance year 2025/26

Early 2025 - MOSL prepares the Annual Schedule of Audits for PAC to endorse (high level plan for audits across the year, which may include a request for information on key areas of change)



By April 2025 - MOSL and PAC publish the Statement of Approach and Annual Schedule of Audits for industry viewing



Post April 2025 - MOSL prepares the Statement of Work for PAC to endorse (confirms the information to be requested of parties if included in the Annual Schedule of Audits)



2025/26 - MOSL actions approach as set out in the Statement of Work.

- When issuing the requests for information to parties, MOSL would provide each party with any existing information it already holds.

Update to T02 Assurance Statements

What would be the impacts of this solution?

The market codes would not define assurance statements as a specific MPF tool. The codes would instead set out that PAC may request information on key areas of change (e.g., systems and resources) from all parties each year as an example of an audit to provide market assurance.

Trading parties would be required to respond to requests for such information in the same way as any other audit. MOSL would provide each party with any information it already holds to reduce the burden to respond.

Obligations around reinsurance would be unchanged.

The high-level approach for each year would need to be determined before the Statement of Approach and Schedule of Audits are published. The detailed approach would be confirmed through a Statement of Work.

Update to T02 Assurance Statements

What would be the benefits of this solution?

MOSL could use information it receives to better support and prepare parties for change (e.g., identify and assist parties that may be particularly impacted by a change in systems and technology).

This solution does not directly assess compliance with reinsurance obligations, but it would remind parties of this obligation. It would recognize that parties may not always have advanced sight of every trigger and risk, and thus would place more emphasis on MOSL to support parties.

Bringing this activity under the audit tool would give PAC better oversight for the full spectrum of MPF information to be requested of parties in each performance year (allowing PAC to recognise where prioritisation may be required to balance market benefits with impacts on parties).

This approach would allow greater flex in the process. For example, as with standard audits, PAC would have a key role to endorse the scope and frequency and may decide that minimal (or no) information is required of parties in a performance year. Equally, PAC may request different types of information based on observed risks, issues and performance.

Update to T02 Assurance Statements

Summary

The proposal is that instead of defining assurance statements as a tool of the MPF, MOSL and PAC should use the Trading Party Audit tool to provide the required degree of market assurance in any year. This is:

- Simple as it uses an existing process within the framework instead of creating a new one.
- Agile as MOSL and PAC can flex the frequency and scope based on effort-reward.
- More useful than focussing only on compliance with reassurance obligations as it will provide information that may be used to proactively support parties through change (plus any solution requesting self-declarations on compliance would feature audits as matter of routine, increasing complexity and cost)

**Is this approach preferred (or should T02 remain a separate tool)?
Any further comments or questions?**

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AOB

MOSL



Upcoming PAG workshop(s)

Date	For discussion	Detail
17th April	MPF Metrics M01 (and M19)	Part C – Key performance indicators: M01 – Market meter cyclic reads performed within SLA (and M19 – Non-market meters)
1st May	MPF Metrics M04 and M06	Part C – Key performance indicators: M04 – Transfer meter reads received, dated within SLA and M06 – lateness of overdue transfer meter reads

MOSL

