MOSL

Market Performance Framework (MPF) Reform

PAG workshop on Transfer read Key Performance Indicators

12 June 2024

Agenda

	Item	Presenter	Time
1	**Welcome & update**	**Chris Dawson (Chair)**	**10 mins**
2	M04 read window	Jak Davidson	15 mins
3	Transfer reads – scenarios, caveats & exclusions	Jak Davidson	10 mins
4	M09 Estimate v Actual	Evan Joanette	20 mins
4	M04, M06 & M09 – holistic review	Janet Judge	50 mins
5	Consultation 4 update	Miles Robinson	15 mins
6	Upcoming PAG workshop(s) & AOB	Chris Dawson	10 mins
			Total: 2 hours

Housekeeping

Welcome all - Please introduce yourself in the chat

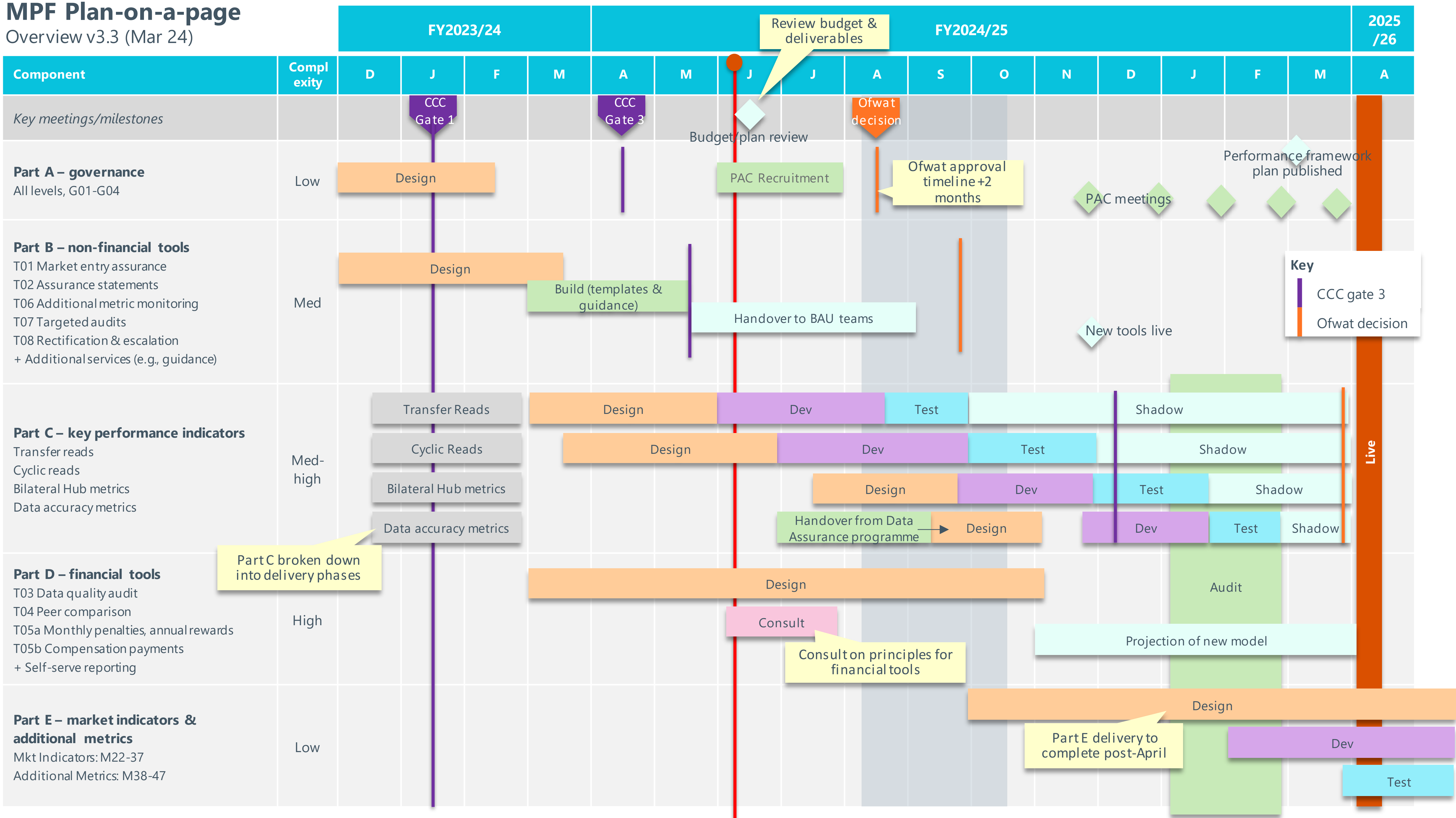
Workshop format – Input and feedback needed

Chat and Questions mpfreform@mosl.co.uk

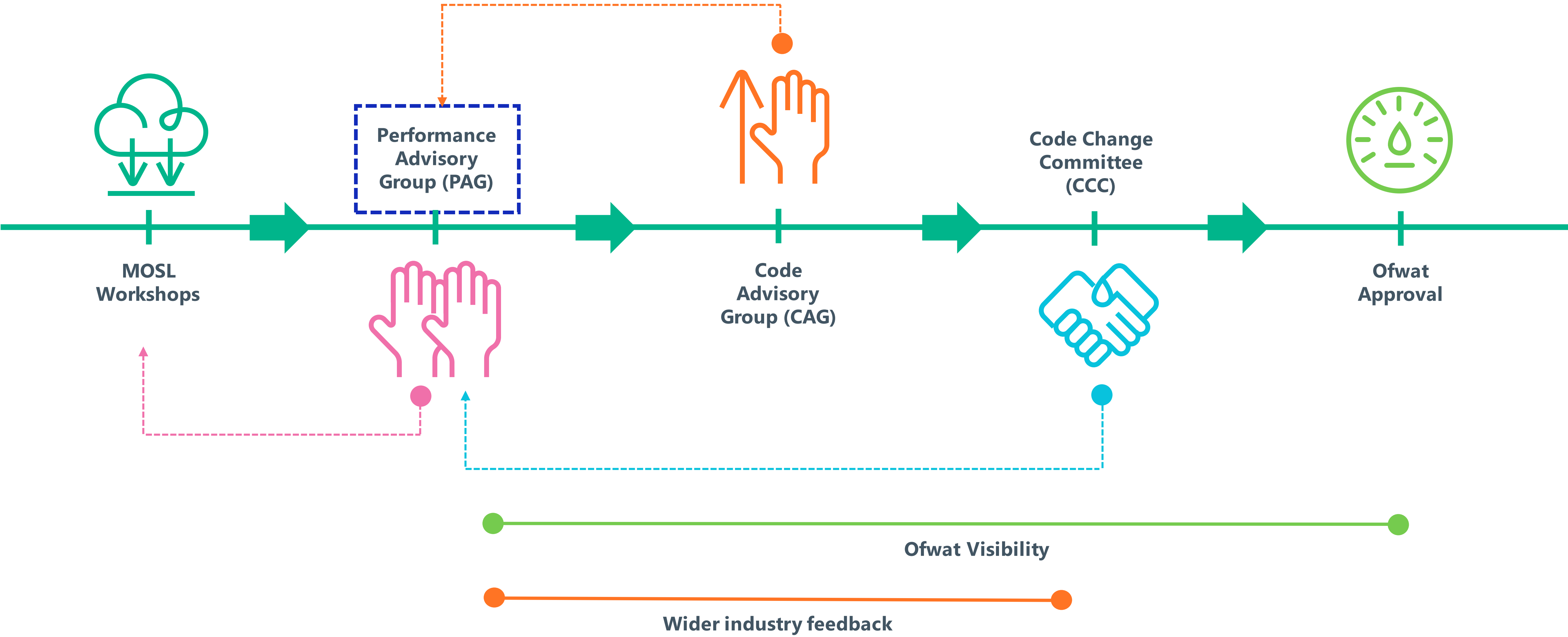
MOSL Website for Agenda, Minutes & Slides

MPF Plan-on-a-page

Overview v3.3 (Mar 24)



Metrics – High Level Journey



PAG Input

What do we need from PAG members?

- Feedback on the metric **concept**
- Feedback on whether new metric options measure and track the right **activities**
- Feedback on whether the new metric options promote the best outcome for the **customer**

Transfer Reads - Influence & Benefits

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What behaviour are we trying to influence?

Swift submission of **actual** transfer meter readings, taken within **proximity** of the **"transfer date"** (registration start date)

What is the Customer Benefit?

The receipt of an **accurate** and **timely final bill** from an outgoing retailer, and an **accurate starting point for consumption** with the new retailer

What is the Trading Party Benefit?

Supports **accurate settlement**, **accurate and timely billing**, and **alignment** between retailers.

Transfer Reads – Problem Statements

Billing complaints – Highest reason for complaints from end customer

Estimated readings are **significantly higher than actuals** for transfer reads

Reinforce the **accountability** of the **relevant trading party** (Incoming Retailer)

Design must support and continue to encourage current **high performance**

Transfer Reads – Consultation Feedback

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M04**, M06** and M09: “These metrics could have unintended consequences in that **retailers may not compete for SPIDs that have long unread meters**. Therefore, in the same way that these metrics will exclude a meter with an active C1 or B5 bilateral request, they **should also exclude long unread meters”**

M09: “**if the retailer has agreed with the customer in their contract that estimated transfer reads will be used, a retailer should not be penalized for this** as this is down to the customer’s choice. This metric could become a barrier to switching and be deemed anti-competitive.”

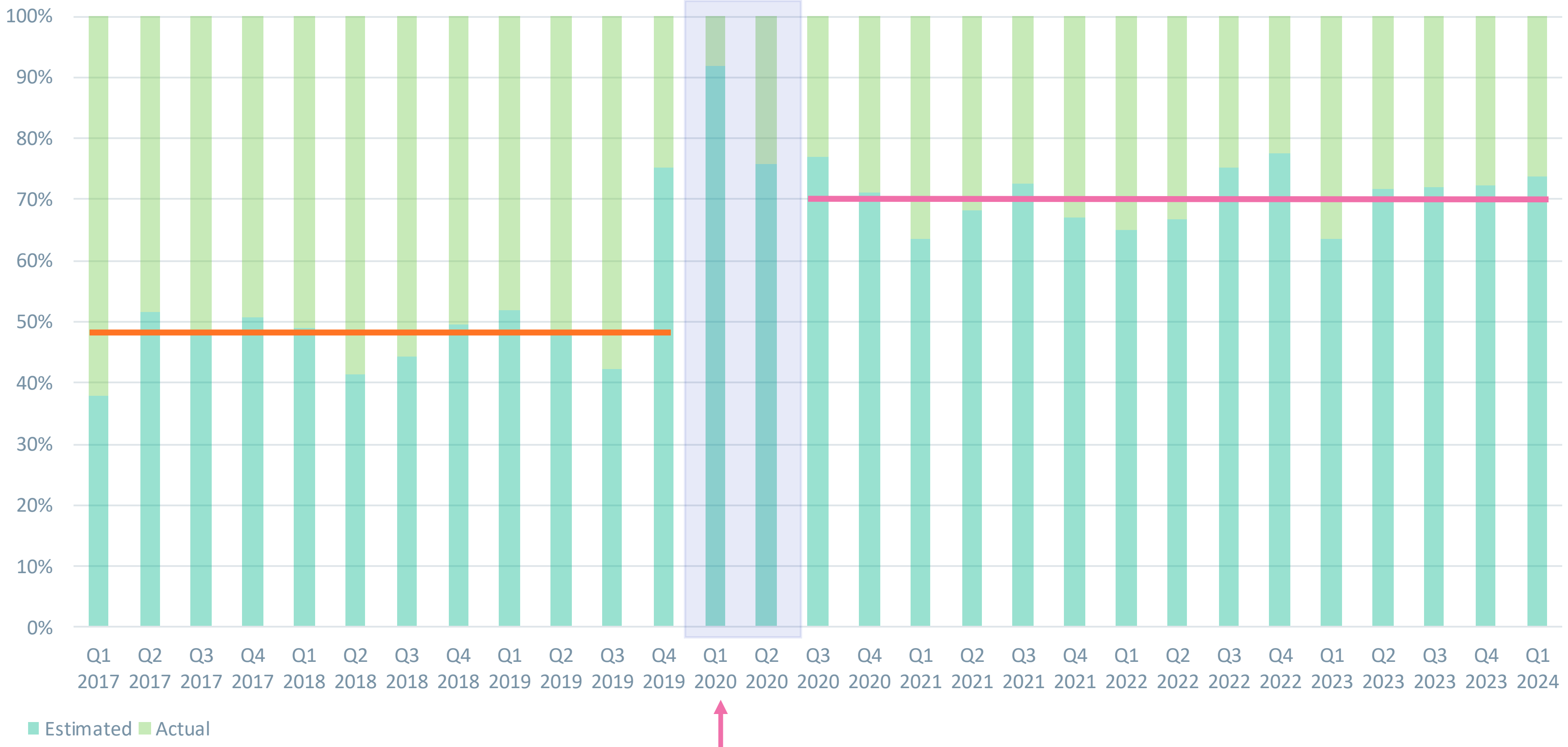
M06: "We are **highly concerned around the use of ‘lateness’** as the metric for failed Meter Reads, as we believe such an approach can potentially disincentivize the submission of reads to the market. We do not believe that any incentive structure should lead to a position where a Retailer may be potentially ‘better off’ for not submitting an accurate actual read to the market.”

M09: “This metric **favours larger retailers with the resources to meet its requirements**, and penalises retailers who switch more by increasing the costs associated with switching; these impacts are inherently anti-competitive. Furthermore, by penalising estimated t-reads, incoming retailers are being held accountable for the legacy of poor data left behind by outgoing retailer.

M04 – Read Window Extension

M04 – Read Window Extension

Blue removed from calculation as COVID period with restrictions



Read window increased from -2,+2BDs, to -2,+7BDs

	Window -2, +2BDs	Window -2, +7BDs
Average% Transfer reads Estimated	**49%**	**70%**
Average % Transfer reads Actual*	**51%**	**30%**

*Actual = Combination if Visual, Remote and Customer

M04 - Proportion of successful transfer reads

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What is the "Success Criteria"?

Read type: Transfer (T)

Read method: Visual, Remote, Estimate & Customer

SLA 1	**Read dated:** Within two (2) Business Days before the latest Registration Start Date up until seven (7) Business Days after the relevant Registration Start Date
SLA 2	**Read submitted:** Within eight (8) Business Days of the date the Meter Read is taken

PASS

FAIL SCENARIO 1
NO READ RECEIVED

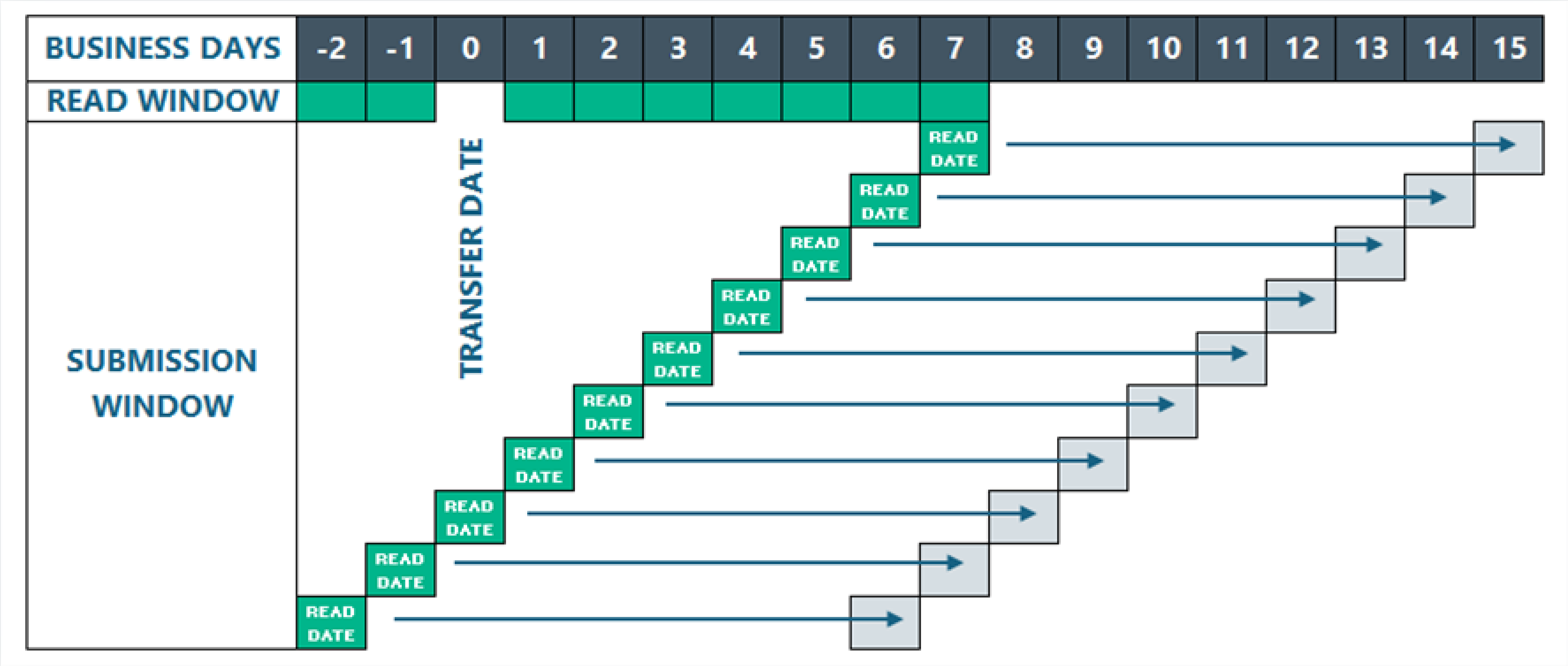
FAIL SCENARIO 2
READ DATE OUTSIDE OF READ WINDOW

FAIL SCENARIO 3
READ SUBMITTED OUTSIDE OF SUBMISSION WINDOW

FAIL SCENARIO 4
READ DATE OUTSIDE OF READ WINDOW
READ SUBMITTED OUTSIDE OF SUBMISSION WINDOW

PERFORMANCE = % of PASSED *versus* ALL EXPECTED (within the reporting window)

M04 - Proportion of successful transfer reads



T108.R = Trigger for Read Window (-2, +7BDs)

T105.R = Submission window tracking

Report includes all transfers where BD 15 falls within the "reporting window"

Scenarios, Caveats & Exclusions

Metric Design Journey – ALL Transfer metrics

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Metric Title/Concept

Overarching metric name

Consultation feedback received

Metric design theory

Defining the metric theory

Input
Question
Output

Tools

Defining what financial incentives should apply to the metric

Penalties
Rewards
Compensation
Performance target

Scenarios

Defining how the metric should handle specific scenarios

Vacant properties
Transfers Disconnected
C1/B5
LUMS
Border SPIDs
SPERRs
Erased
MX

M04, M06 and M09

MOSL

Transaction based scenarios

Overarching Rule:

Status within MDS at the time the report is ran will be the status used for the metric calculations

- Erroneous Transfer
- Backdated MX
- Backdated Deregistration
- SPERR
- TCORR

If processed before the report run date, transaction will be taken into consideration. If processed after, MPF will not be re-ran.
CURRENT MPF LOGIC – No change proposed

M04, M06 and M09

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SPID structure/site specific scenarios

Occupancy Status → No exclusions for occupancy statuses

Water Only

Sewerage Only

SPIDs with multiple meters

SPIDs with different transfer dates

→ Expected tasks = per meter, per SPID

Unmetered properties → Not included

Meters with an open bilateral request → No exclusions for open bilateral requests

CURRENT MPF LOGIC – No change proposed

M09 – Estimated V Actual

Metric Design Journey – M09

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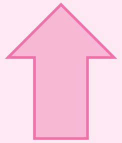
Transfer Reads – M09

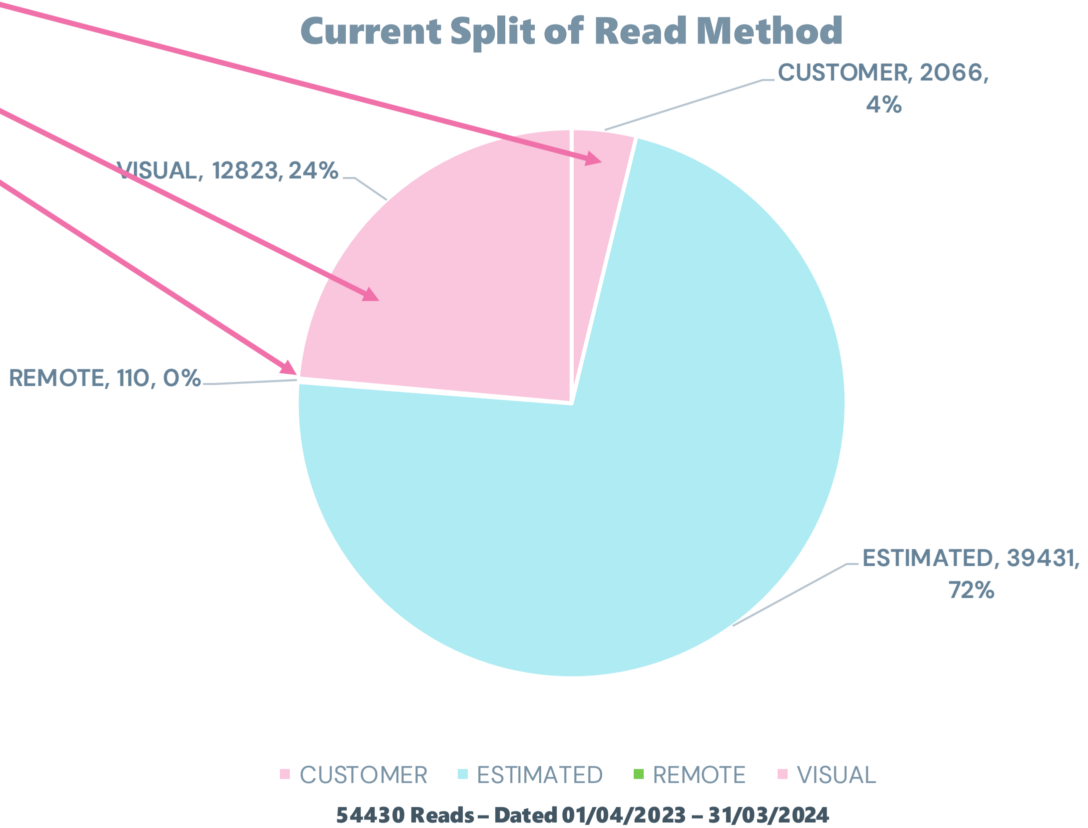
Swift submission of **actual** transfer meter readings, taken within **proximity** of the **"transfer date"** (registration start date)

M09

Estimated V **Actual** transfer meter reads



Read method



M09 – discussion so far and summary

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An estimate (e.g., apportioned reads) should be treated the same as an actual transfer read.

Retailers should be able to agree the read type between themselves prior to submission.

Rationale: No strong evidence to change MPF core obligations in this case: **the market codes require that a visual or customer reading <u>must</u> be attempted before an estimated read is used.**
Impacted TPs recommended to pick up with metering committee.

✗

Estimates which end up being revised or replaced cause a problem for the outgoing Retailer.

Action: Consider developing an Additional Metric for PAC diagnosis of transfer read performance. Could become a KPI in time if evidence requires.

✓

M09 will not solve the increase in estimated transfer reads or the underlying reasons for this.

Rationale: M09 provides a deliberately simple basis for the PAC to start investigating performance and reasons. To increase actual reads, the market must understand the proportion. To do that, the PAC must track the proportion.

✗

Estimated readings for transfers <u>ARE</u> allowed and should not be penalised.

Suggestion: Instead of penalising the use of estimates, the MPF could reward the use of actual transfer reads (to be discussed in holistic playback later).

✓

M09 – key decisions

Over what period should proportion of "Estimated" *versus* "Actual" be calculated?

- **Option 1** – Only monitor those expected within the reporting period (simple, consistent with M04, M06, promotes timeliness) ✓
- **Option 2** – All T105.R transactions received within a "reporting period" (complex and less consistent, need to define a cutoff, may promote late actuals over timely estimates – not necessarily what we want) ✗

Should performance be monthly performance, or a rolling performance over X months?

- **Monthly** – consistent with other KPIs and allows for quicker intervention ✓
- **Rolling** – less volatile but less consistent with other KPIs and might hide ephemeral patterns/trends ✗

?

Holistic playback (M04, M06, M09)

Metric Design Journey

Metric Title/Concept

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Transfer Reads - Overview

M04

Proportion of **successful** transfer reads

Read & Submission Date

M06

Lateness of **missing** transfer meter reads

Overdue meter reads

M09

Estimated V **Actual** transfer meter reads

Read method

Transfer Reads – Overview

MOSL

M04

Proportion of **successful** transfer reads

↑

Read & Submission Date

M06

Lateness of **missing** transfer meter reads

↑

Overdue meter reads

M09

Estimated V **Actual** transfer meter reads

↑

Read method

"**Successful transfer read**" = read date within read window (-2 to +7 from registration start date) and read submitted within submission window (within 8 BDs of date the meter is read).

M06 only considers M04 failures where no read has been received.
M09 only considers transfer reads that were expected within the reporting period.

M04 is the master

Overarching rule: status in MDS when report is run = status used for the metric calculations (as per logic today).

Transfer Reads – Overview

MOSL

M04

Proportion of **successful** transfer reads

⬆

Read & Submission Date

M06

Lateness of **missing** transfer meter reads

⬆

Overdue meter reads

M09

Estimated V **Actual** transfer meter reads

⬆

Read method

What do we want to achieve? *More timely actual reads = accurate consumption, better billing experience, fewer complaints, more efficient handover, greater accountability, fewer retrospective amendments.*

How could apply our MPF tools against these KPIs to achieve this? *Without disincentivising switching…*

Transfer Reads – proposed tool model

M04

Proportion of **successful** transfer reads

M06

Lateness of **missing** transfer meter reads

M09

Estimated V **Actual** transfer meter reads

Transfer Reads – proposed tool model

	M04	M06	M09
	Proportion of **successful** transfer reads	**Lateness** of **missing** transfer meter reads	**Estimated** V **Actual** transfer meter reads
Performance Calculation			
Performance Standard			
Charge Type			
Charge Model			
Paid by			
Paid to			

Transfer Reads – proposed tool model

M04	M06	M09
Proportion of **successful** transfer reads	**Lateness** of **missing** transfer meter reads	**Estimated** V **Actual** transfer meter reads

	M04
Performance Calculation	Percentage of transfer read passes (date and submission SLAs) vs all transfer reads expected, per month
Performance Standard	100% (as estimates are permitted). PAC reporting would highlight market average and those above/below
Charge Type	Penalty
Charge Model	Penalty charge per failure per month
Paid by	Incoming Retailer
Paid to	MOSL

Transfer Reads – proposed tool model

	M04 Proportion of successful transfer reads	M06 Lateness of missing transfer meter reads	M09 Estimated V Actual transfer meter reads
Performance Calculation	Percentage of transfer read passes (date and submission SLAs) vs all transfer reads expected, per month	Average lateness of missing transfer reads, per month	
Performance Standard	100% (as estimates are permitted). PAC reporting would highlight market average and those above/below	0 days late (BD15 = 0 days) i.e. no missing transfer reads	
Charge Type	Penalty	Penalty and compensation	
Charge Model	Penalty charge per failure per month	Penalty charge per day late per month (from BD16 after RSD up to 6 weeks) Compensation charge per day late per month from 4-6 weeks	
Paid by	Incoming Retailer	Incoming Retailer	
Paid to	MOSL	MOSL (compensation passed onto Outgoing Retailer)	

Transfer Reads – proposed tool model

	M04 Proportion of successful transfer reads	M06 Lateness of missing transfer meter reads	M09 Estimated V Actual transfer meter reads
Performance Calculation	Percentage of transfer read passes (date and submission SLAs) vs all transfer reads expected, per month	Average lateness of missing transfer reads, per month	Percentage of actual transfer reads vs all transfer reads, per month
Performance Standard	100% (as estimates are permitted). PAC reporting would highlight market average and those above/below	0 days late (BD15 = 0 days) i.e. no missing transfer reads	To be agreed
Charge Type	Penalty	Penalty and compensation	Reward
Charge Model	Penalty charge per failure per month	Penalty charge per day late per month (from BD16 after RSD up to 6 weeks) Compensation charge per day late per month from 4-6 weeks	Reward per actual transfer read per year (based on monthly performance, not annual) over the standard
Paid by	Incoming Retailer	Incoming Retailer	MOSL (funded by penalties)
Paid to	MOSL	MOSL (compensation passed onto Outgoing Retailer)	Incoming Retailer

Rationale for proposed model

M04 (proportion of successful transfer reads)
- The taking and submission of transfer reads is a core activity which is chargeable today.
- Estimates are permitted, so no reason not to achieve 100%, hence penalty per failure (as today) and no rewards.
- Incoming retailers have discretion of how many SPIDs are transferred and when

M06 (lateness of missing transfer reads)
- No scope for rewards as the framework should not reward failure.
- Penalty charges progressively accumulating with lateness creates an incentive to address failures as soon as possible.
- In extreme lateness scenarios, the outgoing retailer will be impacted by not having a read for its final bill. The outgoing retailer should be compensated in these rare instances.

M09 (estimated vs actual transfer reads)
- A reward per actual transfer read over the standard should promote the submission of actuals.
- Without rewards on M09, the framework around transfer reads is penalty focussed and does not promote switching activity. Furthermore, there is limited incentive (beyond public peer comparison) to not pass M04 by simply submitting estimates.
- More generally, without rewards in some areas of the framework, all penalties will be redistributed in a performance neutral manner at years' end anyway.
- PAC audits and ability to recover rewards could ensure that estimates are not being submitted as actuals.

Transfer Reads – Consultation Feedback

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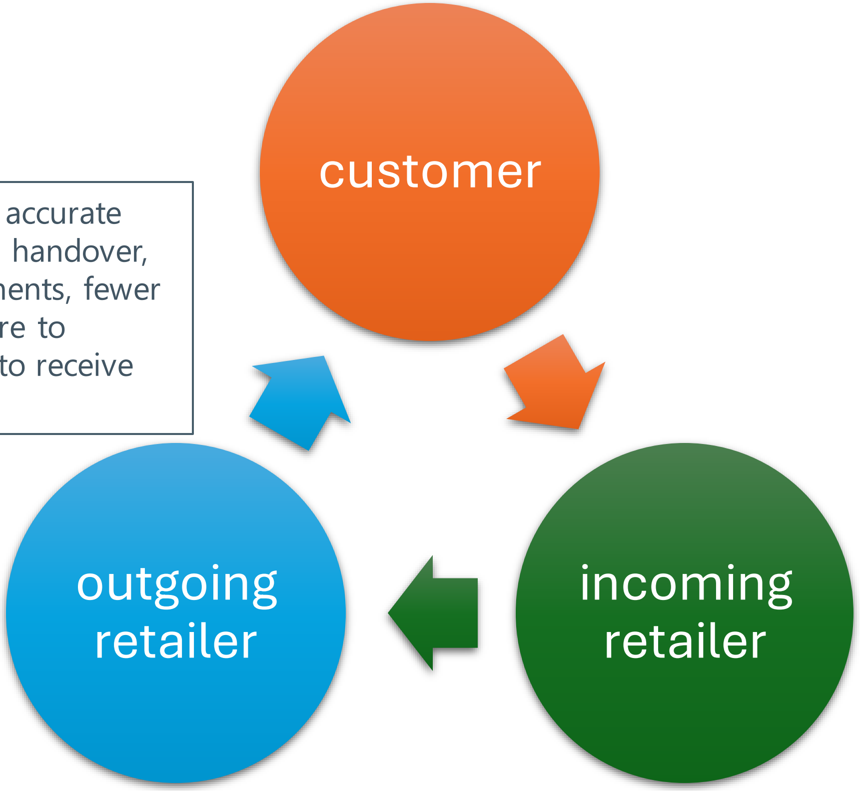
Trading party comment	MOSL response
These metrics should exclude a meter with an active C1 or B5 bilateral request, they should also exclude long unread meters	Estimated readings are permitted in M04, and M06, thus no need to exclude. M09 does not penalise for estimated reads, rather rewards actual readings. As long unread meters may be found by the new retailer, and not all C1 & B5 bilateral request prevent a meter being read, we would not want to disregard potential "actual" readings from a reward where the new retailer has been successful in their attempt.
We believe lateness tracking can potentially disincentivise the submission of reads to the market.	The timeliness of transfer readings is very important, as an outgoing retailer is relying on a read within a specific window to close down the customers bill post transfer. They are also bound by the Ofwat CPCOP which states how long they have to produce a final bill. Without tracking lateness and holding incoming retailers responsible, we run the risk of negatively impacting outgoing trading parties and customers. We are incentivising submission of a read by charging where a read has not been submitted. SLA timescales have been reviewed as part of the metric design to ensure the opportunity to take and submit a reading is fair.
By penalising estimated t-reads, incoming retailers are being held accountable for the legacy of poor data left behind by outgoing retailer	We are not proposing a penalty on estimated transfer readings, rather a reward for those that obtain actual transfer readings (visual, customer or remote)
M09 favours larger retailers with the resources to meet its requirements, and penalises retailers who switch more by increasing the costs associated with switching; these impacts are inherently anti-competitive If the retailer has agreed with the customer in their contract that estimated transfer reads will be used, a retailer should not be penalised for this as this is down to the customer's choice. This metric could become a barrier to switching and be deemed anti-competitive	There is a recognition that an actual meter read on transfer is preferential to an estimate. Trading parties are allowed only to estimate under certain limited circumstances. Trading parties giving customers the choice of an estimated reading over attempting an actual are not following market codes. M09 is looking to incentives best endeavours, and reward those who achieve performance levels above the set standard of actual readings, regardless of size or transfer volumes.

Summary and ask

Works for customer: accurate and timely final bill, better billing experience

Works for outgoing retailer: accurate consumption, more efficient handover, fewer retrospective amendments, fewer complaints, reduced exposure to incorrect charges, potential to receive compensation



Works for incoming retailer: customer reads count, can use estimates, accurate settlement and better alignment between retailers, opportunity for rewards

The ask:

Do you support the design of these metrics with the proposed tool model?

Do you support this is a fair way to ensure all three parties, i.e. customer, incoming and outgoing retailers, are represented?

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Questions?

Consultation 4 update

Consultation recap

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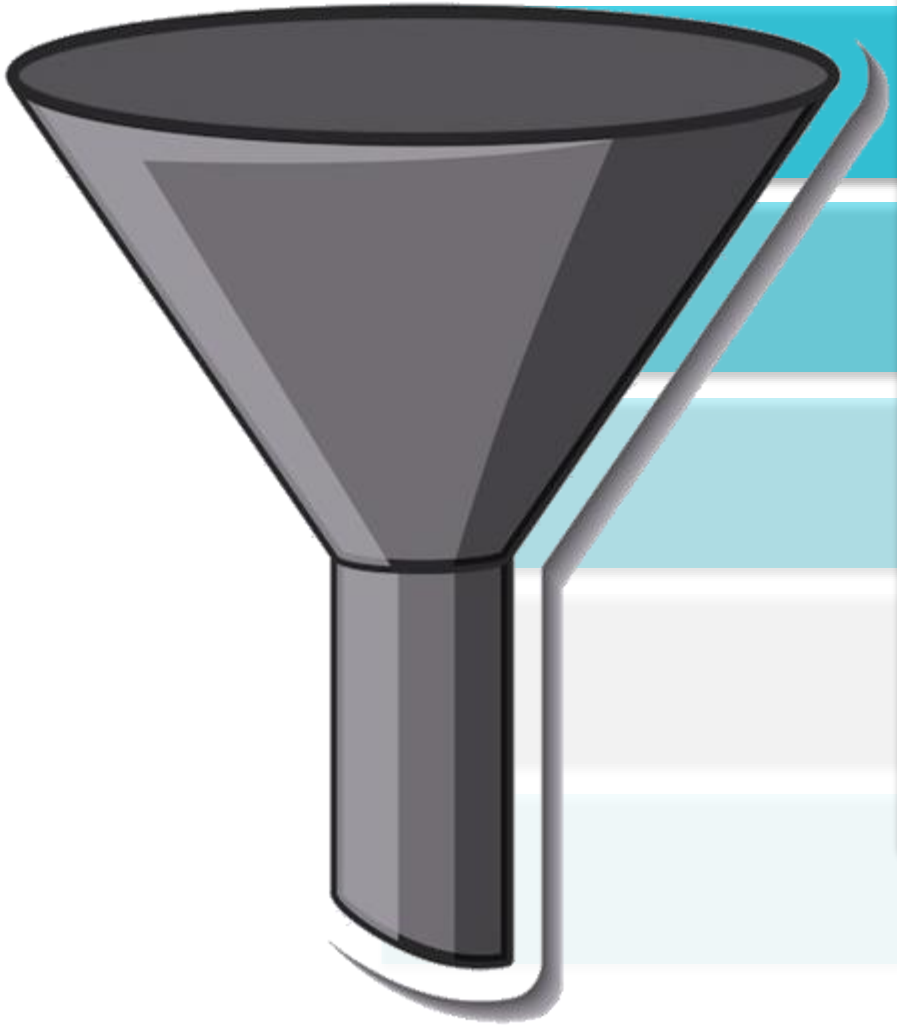


Increasingly focused MPF model

Consultation 1:
October 2022

All risks, issues and activities ✓

Consultation 2:
March 2023

'**Longlist**' 40+ activities and 100+ metrics considered ✓

Consultation 3:
September 2023

MPF Model 9 activities, 21 KPIs, 8 tools, 4 levels of governance… ✓

*Deliver **Interim improvements (Nov 23-Jan 24)*** ✓

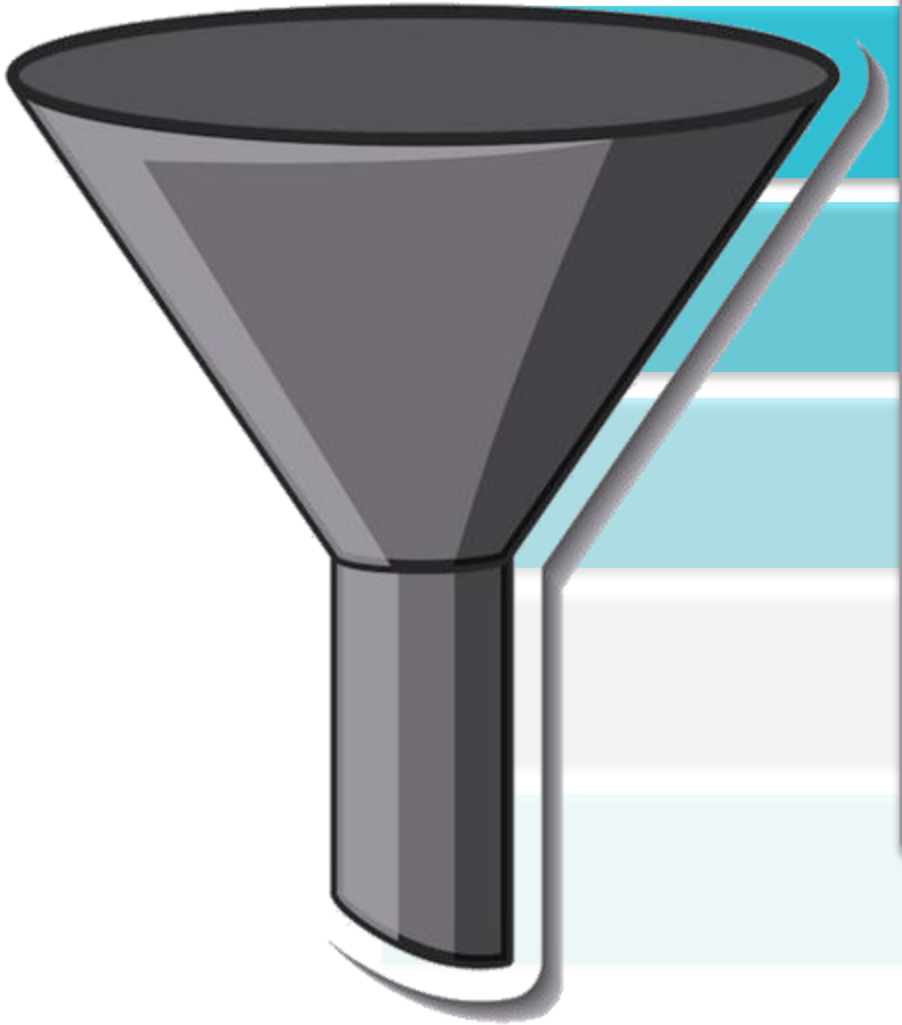
Consultation 4:
July 2024

Design and principles of Part D – Financial tools

Aim: MPF 2.0 in place by 1 April 2025

Consultation recap

MOSL



Increasingly focused MPF model

Consultation 1: October 2022 — **All** risks, issues and activities ✓

Consultation 2: March 2023 — '**Longlist**' 40+ activities and 100+ metrics considered ✓

Consultation 3: September 2023 — **MPF Model** 9 activities, 21 KPIs, 8 tools, 4 levels of governance… ✓

Deliver ***Interim improvements (Nov 23-Jan 24)*** ✓

Consultation 4: July 2024 — Design and principles of Part D – Financial tools

Values and performance standards to follow

Aim: MPF 2.0 in place by 1 April 2025

Part D – Consultation 4 planning

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Consultation 4
8 July – 2 August

Section 1

The **success criteria** that will be used to judge the proposed changes

Pre-reading document: **Mon 14 June**

Section 2

The **principles that will be used to design** the financial tool(s) and performance standards

Pre-reading document: **Mon 24 June**

Section 3

Based on 1 & 2, **align the most appropriate financial tool with MPF metric(s)**

Pre-reading document: **Mon 1 July**

Consultation 4 will focus on the **design** of financial tools and aligning them to metrics.

The scale of charges (penalties, compensations and rewards) and **actual performance standards** for each KPI will be determined in the Autumn

Part D – Consultation 4 planning

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Consultation 4
8 July – 2 August

Section 1

The **success criteria** that will be used to judge the proposed changes

Including:

- Overview of Consultation 4
- What consultation will – and won't – include
- Content of three pre-reading documents
- Issues with financial tools included in current MPF and objectives of reformed financial tools

Section 2

The **principles that will be used to design** the financial tool(s) and performance standards

Including:

- Define potential financial incentives
- Principles for financial tools and performance standards
- Rationale for the principles and how they align with feedback from stakeholders

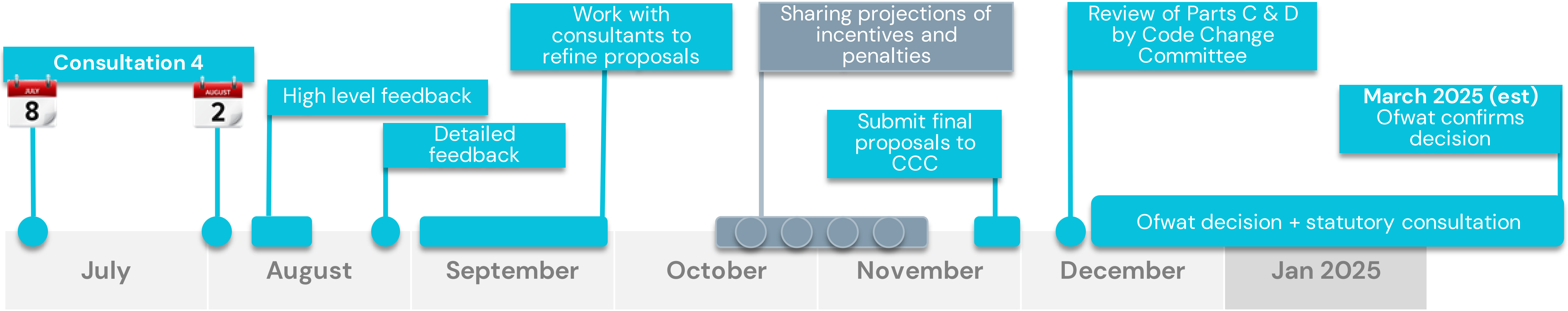
Section 3

Based on 1 & 2, **align the most appropriate financial tool with MPF metric(s)**

Including:

- Proposed charging model(s) and units for each metric
- Rationale for proposed charging models and link to principles in Section 2
- Indication of current performance and charges where there are equivalents in current MPF
- Examples of how the proposed charging models may apply in practice

Consultation 4 and beyond



Questions?

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Upcoming PAG workshop(s)

Date	For discussion	Detail
19th June	MPF Metrics*	M01 - Cyclic meter reads performed within SLA (biannual or monthly) & M03 Lateness of overdue cyclic meter reads.
26th June	MPF Metrics*	Transfer metrics – Holistic view of all metrics
2nd July	MPF Metrics*	M01 – Cyclic meter reads performed within SLA (biannual or monthly) & M03 Lateness of overdue cyclic meter reads
10th July	MPF Metrics*	M15 – Average lateness of failed SLAs for bilateral Requests & M18 Proportion of SLAs for bilateral requests completed on time
17th July	MPF Metrics*	M01 – Cyclic meter reads performed within SLA (biannual or monthly) & M03 Lateness of overdue cyclic meter reads
24th July	MPF Metrics*	M15 – Average lateness of failed SLAs for bilateral Requests & M18 Proportion of SLAs for bilateral requests completed on time
31st July	MPF Metrics*	M01 – Cyclic meter reads performed within SLA (biannual or monthly) & M03 Lateness of overdue cyclic meter reads

**Subject to change*

AOB

mpfreform@mosl.co.uk

List of Metrics -Key Performance Indicators (KPIs)

Ref	Group	Description
M01	Market meter KPIs	Cyclic meter reads performed within SLA (biannual or monthly)
M02		Proportion of smart meters read
M03		Lateness of overdue cyclic meter reads
M04		Proportion of transfer meter reads performed within SLA
M05		Proportion of transfer meter reads submitted within SLA
M06		Lateness of overdue transfer meter reads
M07		Proportion of consumption from cyclic meter reads performed within the biannual or monthly Service Level Agreement (SLA)
M08		Proportion of consumption settled on actuals vs estimates for smart meters
M09		Proportion of transferred SPIDs that have an estimated meter reading
M10		Number of Long Unread Meters (LUMs) with an outstanding B5 or C1 bilateral transaction request
M11	Data KPIs	Proportion of complete and accurate customer name/banner name and Standard Industry Classification (SIC) code
M12		Proportion of premises address data accuracy
M13		Proportion of unassured long-term vacant (LTV) premises
M14		Proportion of meters with credible GIS coordinates
M15	Service request KPIs	Average lateness of failed SLAs for bilateral Requests
M16		Proportion of deferred ORIDs
M17		Average length of deferrals per ORID
M18		Proportion of SLAs for bilateral Requests completed on time
M19	Non market meter KPIs	Cyclic non-market meter reads performed within SLA (biannual or monthly)
M20		Proportion of consumption from cyclic non-market meter reads performed within the biannual or monthly Service Level Agreement (SLA)
M21		Lateness of overdue cyclic non-market meter reads

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.