

# Market Performance Framework (MPF) Reform

Update on capping and performance-based redistribution (PBR)

20 November 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 several hashtags: '#search #business #concept', '#keywords #design #innovate', and '#'. 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 sleeve.

MARKET  
VALUE  
ADDED

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

# Agenda

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	Item	Presenter	Time
1	Welcome & update	Miles Robinson (Chair)	10 mins
2	Update on PBR proposal	Oli Robins	60 mins
3	Update on approach to penalty charge cap	Oli Robins	40 mins
4	Upcoming PAG workshops & AOB	Miles Robinson	10 mins
			<b>Total: 2 hours</b>

# To cover

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- Update on proposal for performance-based redistribution (PBR) and proposed way forward
- Update on capping penalty charges and proposed way forward



**Seeking PAG feedback on updates and proposals**

# Housekeeping



Welcome all – please introduce yourself in the chat



Workshop format – input and feedback needed



We will allow time for discussion and questions  
Questions via [mpfreform@mosl.co.uk](mailto:mpfreform@mosl.co.uk)



MOSL Website for [Agenda, Minutes & Slides](#)

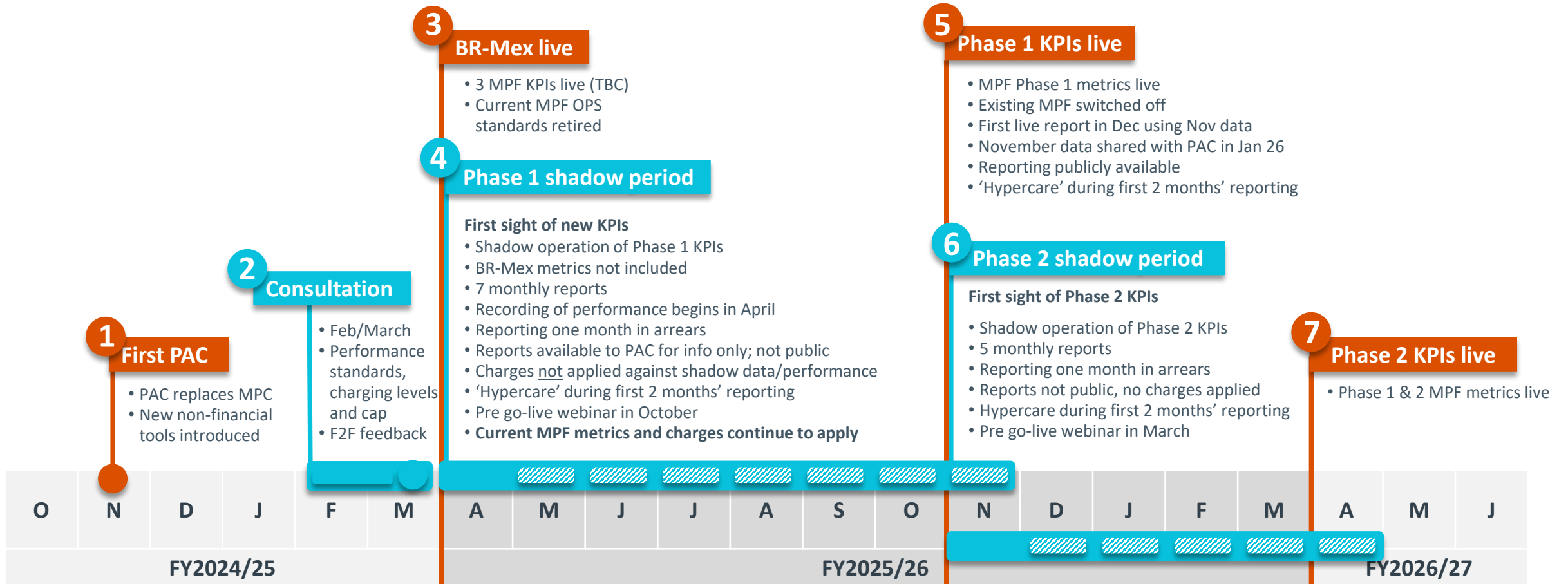


# MPF Reform

## Progress overview - updated

Part	Deliverables	MOSL	PAG	CAG	Doc Issued	Web-inar	Pre-CCC	CCC	Build	Test	Ofwat	Implement
<b>Part A</b>	Governance								N/A	N/A		Nov
<b>Part B</b>	Non-financial tools									N/A		Nov
<b>Part C</b>	<b>BRMex</b>							Jan 25			Mar 25	April 25
	<b>Phase 1: Priority KPIs</b>							July 25			Oct 25	Nov 25
	<b>Phase 2: Enhancement KPIs</b>							Dec 25			Mar 25	April 26
<b>Part D</b>	Financial tools							July 25			Oct 25	Nov 25
<b>Part E</b>	Market indicators & additional metrics							N/A			N/A	TBC

# MPF Delivery Plan Overview



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# Update on PBR



# **Reminder**

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## **Consultation 4 proposal:**

- MPF 2.0 will see 'outperformance payments' being issued at years' end for the proportion of performance that exceeds an outstanding performance standard.
- Payments to Retailers would be funded only by Retailer penalty charges – same for Wholesalers.

## **Consultation feedback:**

- Code obligations are absolute – cannot 'outperform' a code obligation.
- TPs will strive for 100% performance with or without MPF financial reward.
- Need a better use of penalty charges than 'standard redistribution'.

## **Emerging proposal shared with PAG 6 November:**

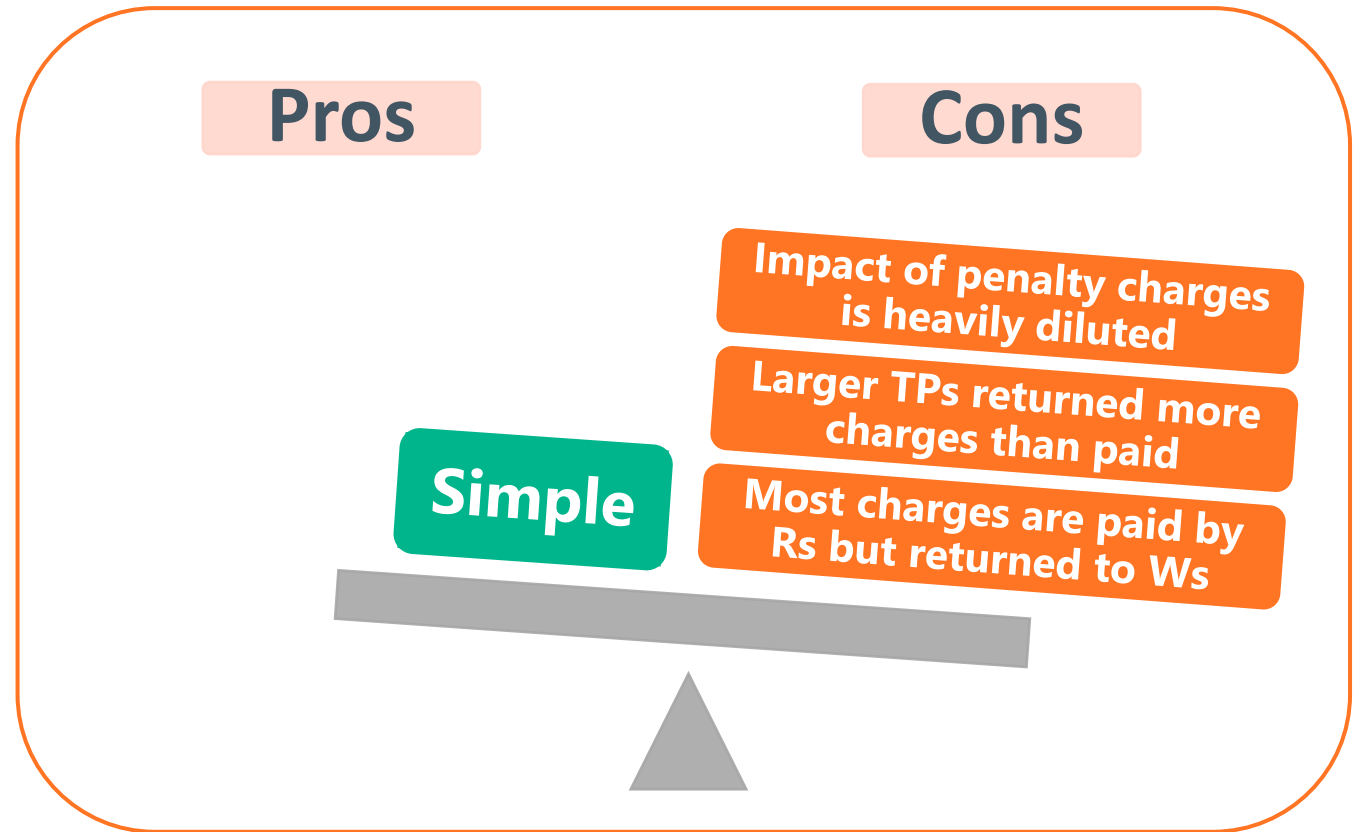
- **Recontextualize the mechanism of 'outperformance payments' as 'performance-based redistribution', ("PBR")**

# History of redistribution – Market Opening (2017)

## Process

MPS charges at years' end are returned to Trading Parties in the same proportions they shared Market Operator charges for the year.

One pot of MPS charges, so all charges from all parties are collected and returned without reference to Trading Party type.



# History of redistribution – CPM008 original

## Proposal (Dec 2017, MPC)

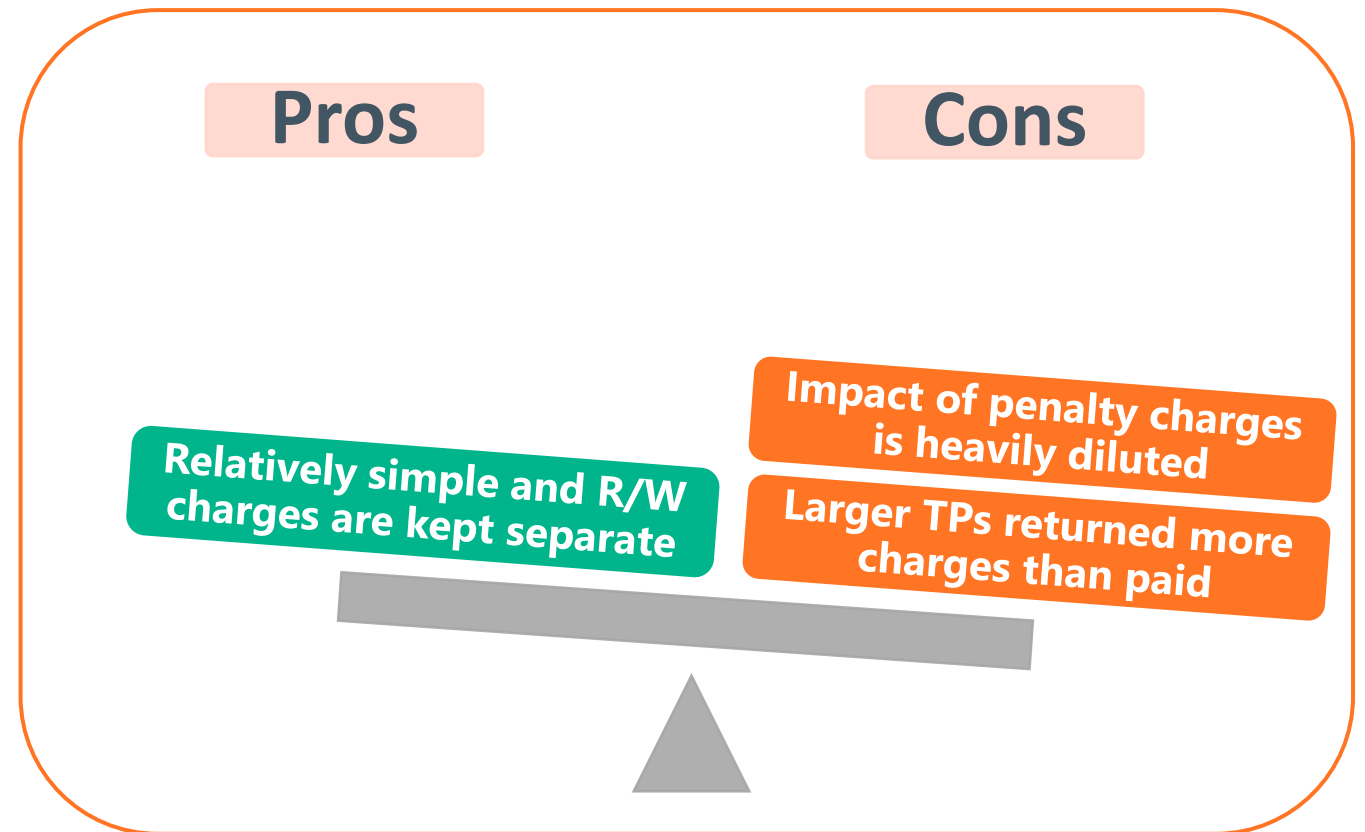
Ringfence Wholesaler and Retailer MPS charges to avoid cross redistribution of charges at years' end.

## Link

[CPM008 Redistribution of MPS charges](#)

## Outcome

Returned by Ofwat in May 2018 as the solution did not address concerns reg. dilution of penalties.



# History of redistribution – CPM008 revised

## Proposal (Oct 2018, MPC)

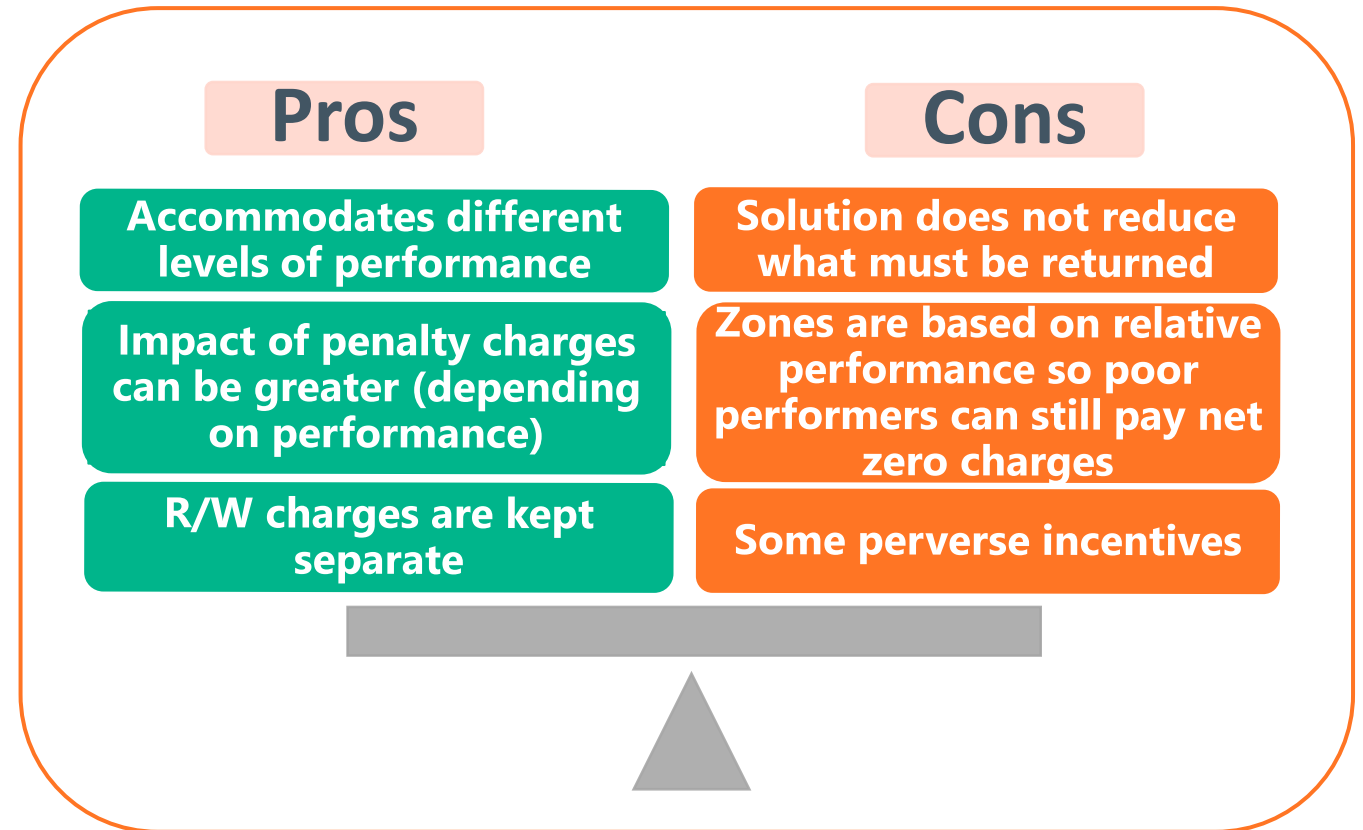
Ringfence Wholesaler and Retailer MPS charges and create “charge attribution zones” to redistribute charges based on relative MPS performance.

## Link

[CPM008 Redistribution of MPS charges](#)

## Outcome

Approved by Ofwat in Feb 2019 but with instruction for further work on a “non-redistribution” proposal.



# History of redistribution – CPM018

## Proposal (Sep 2019, MPC)

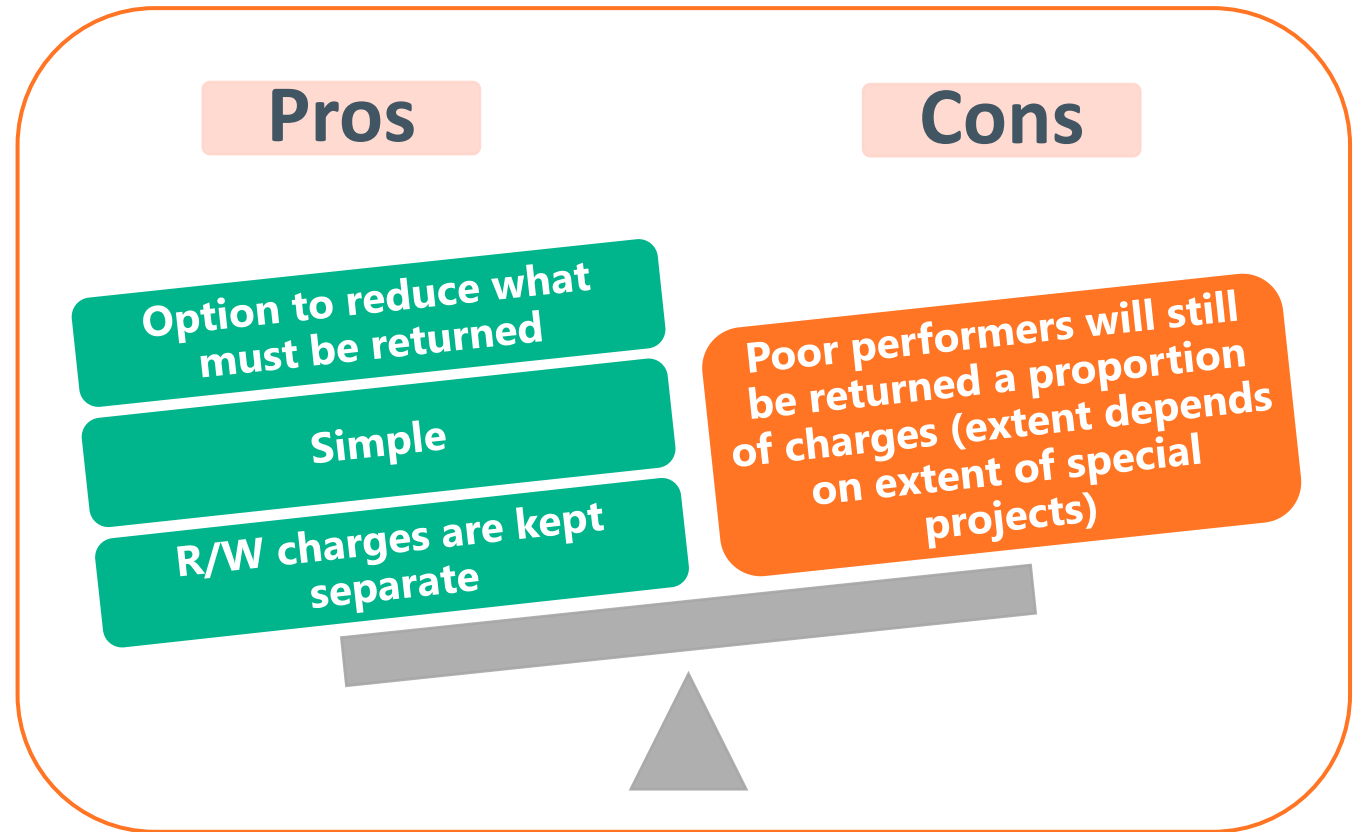
Replace “charge attribution” with an option for the Panel to use OPS and MPS charges to fund special projects. Remaining charges will be redistributed based on each TPs market share (minus what each TP has itself been charged).

## Link

[CPM018 Treatment of MPS and OPS charges](#)

## Outcome

Approved by Ofwat in Dec 2019 and is the current method of redistribution.



# Initial proposal and feedback

## Proposal

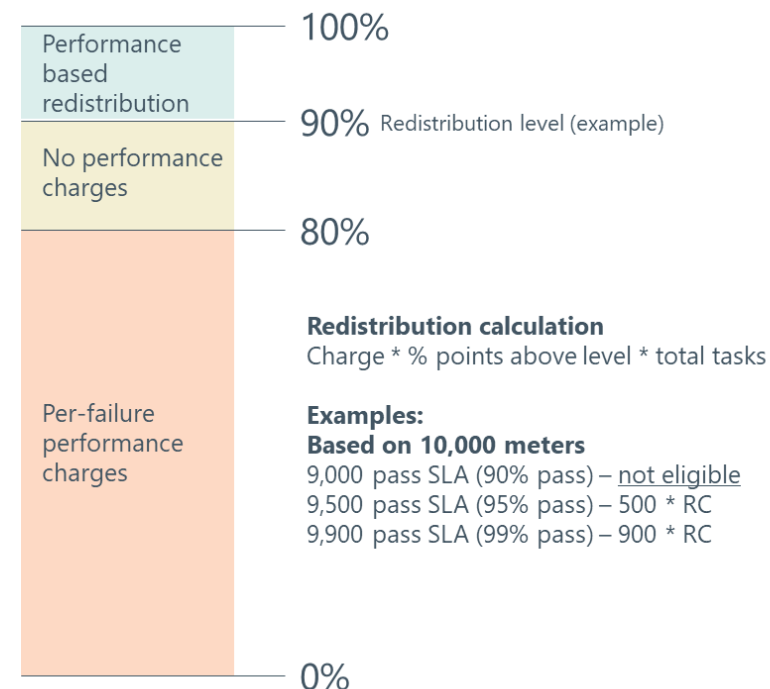
MPF 2.0 includes Performance Based Redistribution (PBR) which applies at a KPI level. The mechanism is the same as 'outperformance payments' in consultation 4.

Only parties that exceed an overall performance level at years' end for an applicable KPI will qualify for PBR for that KPI. The applicable KPIs for phase 1 include M01, M19, M04 and M09.

## Initial PAG feedback

- × Mechanism is overly complex.
- × Risk of perverse incentives if PBR is applied at the KPI level.
- × Current method of redistribution was supported by Economic Insight and MPC and approved by Ofwat in 2019 (previous slides).

### *PBR qualification and calculation*



## Proposed way forward

MOSL is proposing to deprioritize any form of PBR from MVP implementation of MPF 2.0.

### Rationale:

- ✓ recognizes the **complexities and risks** of candidate models when performance in the new regime (and opportunity to reward top performance) **is yet to be fully understood**.
- ✓ recognizes the [work and learnings of Economic Insight and the MPC](#) in 2019 which led to the current method of redistribution under CPM018 and **discounted various alternatives**.
- ✓ simplifies MVP implementation as KPIs will only have one performance standard.

## Proposed way forward

MOSL is proposing to deprioritize any form of PBR from MVP implementation of MPF 2.0.

### However:

- ★ Positive financial incentivization (not only penalties) is a powerful principle; the PAC should review the case for change once a view of enduring performance and availability of penalty charges in MPF 2.0 is available. **This can be picked up in performance period reviews.**
- ★ **MOSL and the Panel will explore greater use of charges in special projects** as provided for by CPM018 (not only MIF projects) to further reduce the redistribution of charges.
- ★ Should PBR be reconsidered by the PAC in the future, the initial view of the PAG is that **a holistic form of PBR might incentivise better behaviors** than PBR on a KPI-by-KPI basis.

Questions?

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# **Update on approach to penalty charge cap**



# **Reminder**

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## **Consultation 4 proposal:**

- Remove the concept of a cap completely. No cap in MPF 2.0.

## **Consultation feedback:**

- A cap on penalty charges provides protection and stability - particularly important in early MPF 2.0.
- Absence of a cap leaves the market exposed to extreme scenarios outside party control
- The shadow period can be used to confirm the suitability of a proposed cap
- Other MPF tools can be used to address trading parties that consistently hit a cap

## **Emerging proposal shared with PAG 6 November:**

- **MPF 2.0 will include a cap on penalty charges at implementation**

## Proposed way forward

The cap for charges in MPF 2.0:

- Will be a **monthly cap based on R1** that applies across all chargeable KPIs.
- Will be **set at a high level**.
  - ✓ an absolute backstop to insulate trading parties (and customers) from the impact of penalty charges that are significantly above BAU levels due to market impacting events.
  - ✓ should not apply for individual failings within typical expected range of trading party performance levels
- Will be implemented with **a code obligation for the PAC to regularly review its application** and signpost any longer-term intentions.
- Will be shared with the PAG before consultation five alongside values for charges and standards.

Questions?

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# Upcoming PAG workshop(s)

Date	For discussion	Detail
20 November	Financial tools	Follow up on cap and performance-based redistribution proposal
28 November	Reporting	Initial view of reporting requirements
4 December	Financial tools*	Charges and performance standards for M01*

*\*Subject to change*

AOB