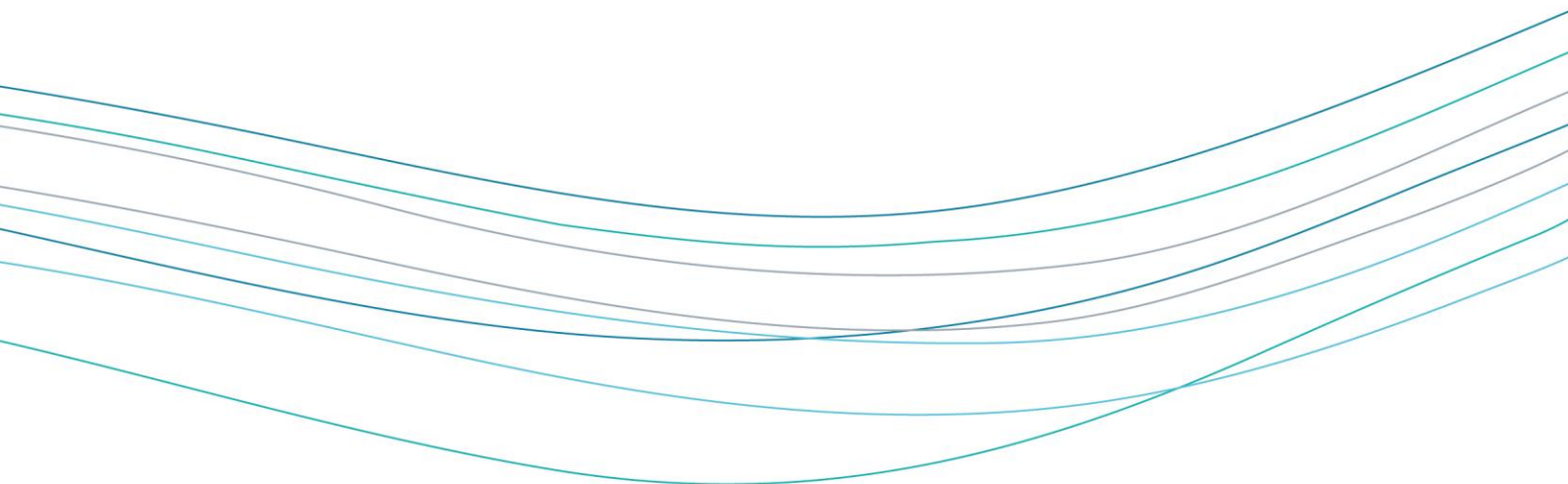


Using Holistic Reporting to drive escalation decisions – market guidance document

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Version Control

Version	Date	Who	Changes made
1.0	25 May 2022	Samantha Webb – Head of Market Assurance	Process defined
2.0	28 February 2023	Samantha Webb – Head of Market Assurance	Changes made to ‘trigger’ process
3.0	24 May 2023	Samantha Webb – Head of Market Assurance	Changes made to holistic metrics included and decisions available

Purpose of the paper

Following the introduction of holistic reporting, the Market Performance Committee (MPC) requested that MOSLs Interim Performance Rectification plan (IPRP) process be updated to firstly reflect the change in performance reporting but to also make the process more streamlined and effective.

The Market Codes provide for a framework ‘the Market Performance Framework’ that places standards on trading parties and processes to manage and mitigate non-compliance and poor performance. It is important that appropriate standards are set, and that swift decisive action is taken to remedy poor performance. To this end, the Market Performance Framework is undergoing a fundamental review. This guidance is not part of that review.

The purpose of this paper is to explain the interim changes to improve the performance escalation processes in the meantime. These changes will come into effect in June 2022.

Objective of Performance Rectification

According to CSD0002 – Market Performance Framework, the purpose of the Market Performance Framework (MPF) is to manage and mitigate the risks of trading parties' non-compliance with their obligations. Non-compliance by trading parties can negatively impact customer in terms of cost or the service they receive. As such, the MPF provides for processes to ensure that sub-optimal performance is resolved, using performance rectification processes. Section 8.4.2, the purpose of an Initial Performance Rectification Plan is to:

- ◆ Inform the Market Operator of the cause of the issue, its impact and the corrective action being taken.
- ◆ Assure the Market Operator that the issue is fully understood that corrective action is appropriate and that the issue is under control.
- ◆ Allow the Market Operator to monitor the resolution issue; and
- ◆ Identify instances where it is necessary to escalate the resolution of the performance issue to the Market Performance committee and/or Panel.

It is important that the rectification of sub-optimal performance is taken seriously by trading parties and performance improvements are sustained.

Our objective in escalating poor performance is to drive sustained improvement in a timely manner.

The purpose of this to note is to provide guidance on how the escalation process will be used to better achieve this objective. The changes to the processes aim to:

- ◆ Reduce the timescales for rectifying poor performance
- ◆ Prioritise the escalation of trading parties whose poor performance most negatively impacts customers
- ◆ More effectively remedy poor performance by better deploying existing tools.

Available tools to performance rectification

Within the codes, there are several tools available to the market to drive performance improvement. These are:

- ◆ Initial Performance Rectification Plans (IPRPs).
 - A plan provided by the trading party detailing the steps it will take to resolve the issue and the timescales for the completion of those steps ([CSD 0002 Market Performance Framework, Section 8.4](#))
- ◆ Performance Rectification Plans (PRPs).
 - An IPRP that has failed to see improvement and has been escalated to be monitored by the MPC ([CSD 0002 Market Performance Framework, Section 8.6.4](#))
- ◆ Reassurance
 - MOSL may require that the trading party participates in Market Re-assurance where this has been recommended by the Market Auditor to provide continued assurance of the proper operation of the Market Terms ([WRC, Schedule 1, Part 4 – Market Terms, Section 4.18](#))
- ◆ Audit
 - MOSL may request an audit is carried out on a trading party where it is suspected that it has materially or persistently failed to meet the requirements of the Market Terms ([WRC, Schedule 1, Part 4 – Market Terms, Section 4.18](#)).

While in the past, MOSL and the Market Performance Committee have only used IPRPs and PRPs to drive performance improvement, we intend to consider on a case-by-case basis whether Reassurance and Audit could support performance rectification.

MOSL has requested a trading party to undergo reassurance after concerns were raised regarding their knowledge of the codes and understanding of what they should be doing as a retailer. While we do not

anticipate this being a frequent concern, reassurance may be an appropriate measure to rectify poor performance and embed sustained improvements.

Audit has to date been used to review and investigate market wide concerns and will continue to be used in this way. However, it may be appropriate, particularly if non-compliance is significant, to request trading parties to undergo an audit of certain processes. ([CSD0001, Section 5/WRC, Schedule 1, Part 4 – Market Terms, Section 4.18](#)).

Peer Comparison using Holistic Reporting

The MPF provides for regular publication of comparative data on trading parties’ performance to encourage continuous improvement. In October 2021, MOSL began publishing trading parties’ performance against existing indicators with the greatest impact on customers and ranking trading parties according to overall performance, known as holistic reporting. By focusing on key indicators and ranking trading parties, holistic reporting provides greater transparency on relative performance and increases the incentives on trading parties to continually improve.

Following the implementation of holistic reporting, we will use trading parties’ overall performance rather than individual performance standards to inform our escalation decisions. The standards, included in holistic reporting, are subject to review and change, particularly to meet any priorities from the Strategic Panel.

For retailers, categories included in the escalation framework are:

- ◆ MPS (MPS 16, 17, 18 and 19)
- ◆ Data quality
- ◆ Vacancy with consumption
- ◆ Long Unread Meters

For wholesalers, categories included in the escalation framework are:

- ◆ OPS: Metering and Verification (OPS B1a, B3a, B3b, B5a, C3a, C4a and bilaterals processes C1 and B5)
- ◆ OPS: Customer Service and Disconnection (OPS F5a, F5b, H1a, I1a and I1b)
- ◆ MPS (MPS 3, 5, 7, 12, 13 and 14)
- ◆ UPRN
- ◆ VOA
- ◆ GIS
- ◆ Long Term Vacant
- ◆ Legacy Long Unread Meter

Proposed process

Step 1 - Letters of Concern

Initially, MOSL and the MPC will use the holistic performance published in the peer comparison tables. However, as performance across the market improves, we will set levels of acceptable performance for each of the categories and measure performance against these instead.

For each trading party that meets the criteria below, MOSL will send out a letter of concern that outlines the poor performance and will require the trading party to provide details on the rectification actions being taken or planned.

Criteria to trigger a letter of concern

For each retailer and wholesaler, there will be certain triggers that will begin the start of the performance rectification process. The triggers are split into two groups; relative and absolute. The metrics measured against an absolute target are below.

Retailers with more than 5,000 SPIDs

- Data Quality
 - 99 per cent

Retailers with less than 5,000 SPIDs

- Data Quality
 - 99 per cent
- Vacant with Consumption
 - 99 per cent

Self Supply and NAV

- Data Quality
 - 99 per cent
- Vacant with Consumption
 - 99 per cent

Wholesalers with more than 1,000 SPIDs

- No absolute measures at present

Wholesalers with less than 1,000 SPIDs

- UPRN
 - 99 per cent
- VOA
 - 99 per cent
- GIS
 - 95 per cent
- Long Term Vacant
 - 98 per cent
- Legacy Long Unread Meters
 - 98 per cent

All remaining metrics (see lists in previous section) are measured based on relative performance against peers. This puts the performance against the metrics into quartiles with the lower performing trading parties falling into the red quartile (red zone).

Any absolute performance measured below the outlined targets set out above will be classed as in the 'red zone'.

Letters of concern will be triggered using the following method.

Retailers

- ◆ Sustained poor performance (red zone) for a **minimum of three months** in **two** of the categories listed in the previous section.

Wholesalers

- ◆ Sustained poor performance (red zone) for a **minimum of three months** in **four** of the categories listed in the previous section.

It is at the discretion of the MPC to exercise its right to request a letter of concern be sent to any trading party for whom there are performance concerns, regardless of the above criteria.

The letter of concern will be sent from MOSL's Finance Director to the contract managers and the Director of the trading party concerned. The trading party will have 20 Business Days to respond. This response should explain the following:

- ◆ the cause and underlying drivers of the poor performance or work underway to investigate this
- ◆ the potential and actual impact on customers or work to assess this
- ◆ the corrective action being taken and/ or planned
- ◆ Interim steps and targets, if relevant, to rectifying the poor performance
- ◆ Actions underway or planned to mitigate the impact on customers
- ◆ Resources and investments for corrective action and sustain improvements
- ◆ Level of awareness and oversight by senior decision-makers, including the board
- ◆ Dates when performance is expected to have improved (to allow for accurate monitoring)

If the current poor performance is due to data cleanse activities, the trading party will also be expected to explain:

- ◆ the nature of the data cleanse work
- ◆ The impact on performance and customers and any action taken to mitigate this

- ◆ The expected duration of the work

On receipt of this letter, MOSL will review the response to ensure the above requirements have been met. MOSL may ask further questions in order to obtain the necessary information.

Step 2 - Escalation

The objective is to escalate trading parties with the poorest performance, causing detriment to customers.

Following receipt of the trading party's response to the letter of concern, MOSL will review the response and evidence provided and will make a recommendation to the MPC on next steps. The options available to the MPC are,

- ◆ Request further information
- ◆ Continue with regular monitoring
 - Same monitoring as everyone else looking for spikes/sudden movement in performance and/or quartiles
- ◆ Focussed monitoring
 - Close monthly monitoring ensuring improvements anticipated are seen and work done following a letter of concern is happening as expected
- ◆ Escalation
 - Escalate to the MPC and TP to attend a future meeting

It is at the discretion of MPC as to who is escalated for further review. MOSL will take into account the following when making its recommendations:

- ◆ The seriousness of the poor performance and its impact to customers
- ◆ The size of the trading party in question
- ◆ The level of awareness of potential impact on customers and actions taken to assess and make good any detriment
- ◆ The level of escalation within the business to monitor and address the issues
- ◆ The duration and scale of the poor performance

- ◆ The actions taken or proposed to mitigate the performance issue (including the resources, process, investments, and sustainability of improvements); and
- ◆ The perceived level of willingness and commitment to correct the performance

Decisions will be made on a case-by-case basis.

Aggravating factors may include:

- ◆ poor performance has a significant detriment to customers, or potential for customer detriment and little has been done to understand this,
- ◆ poor performance has occurred over a significant period or is repeated, and little action has been taken to rectify the issue.

Factors that mitigate escalation include:

- ◆ demonstrating action is already underway and delivering improvements,
- ◆ action is being taken to understand and make good any customer detriment and there is clear senior level commitment to sustained improvement

If in its response the trading party outlines specific data cleanse activities they are undertaking, escalation may not be necessary as we want to encourage such activity. MOSL and the MPC may want to monitor performance to ensure that when the activities are complete, performance begins to improve.

Following a review of the response, MOSL will recommend the MPC to either:

- ◆ accept the proposed actions as written.
- ◆ continue to monitor performance.
- ◆ ask for further information; or
- ◆ escalate to the MPC.

If the response to the letter of concern is accepted but no improvement, or no signs of improvement (depending on the reason for low performance¹) are seen, MOSL will recommend **the trading party is escalated to the MPC**. Performance may also be escalated if the trading party has not delivered an improvement in overall performance by the date set out in their response to the letter of concern. At this

¹ If a trading parties' poor performance is due to data cleanse activities initially having a negative impact, MOSL will not pursue a monthly written update, however, will request that the trading party maintain contact and advise when the activities have finished.

point, the trading party will be sent a follow up letter requiring an explanation why performance has not improved as intended. At this point MPC could then decide to escalate.

If it is deemed necessary to escalate the performance concern further to the MPC, after the first meeting with the trading party, the following will be actioned.

- ◆ Publication of the trading party and performance issue on the MOSL website

Further scrutiny/information required from the trading party by the MPC, which could include regular reporting and the trading party attending MPC meetings. Following escalation to the MPC and depending on the nature of the performance concern and the interactions with the trading party, the MPC may decide to:

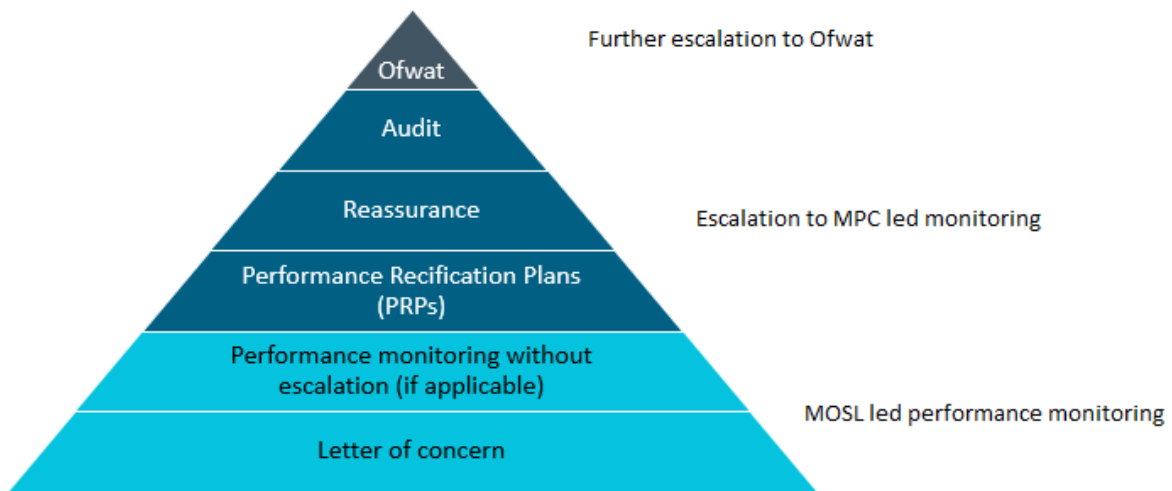
- ◆ Continue with the PRP and monitor the performance.
- ◆ Request MOSL completes reassurance with the trading party in a specific area; or
- ◆ Highlight to MOSL the need to complete a targeted trading party audit in a specific area.

If it becomes apparent that a performance issue is a market wide problem within a particular action, MPC and MOSL will take steps to review the problem and take appropriate steps to support the market to overcome this.

If following escalation to the MPC, performance does not improve to the required levels within reasonable timescales, the MPC can escalate the matter to Ofwat. Similar to above, these escalation decisions are at the discretion of the MPC and made on a case-by-case basis taking into account similar criteria.

Following the implementation of this new approach, we will start to use all the tools available to MOSL and the MPC under the codes to drive performance improvement.

The below chart shows the levels at which MOSL will monitor performance (in light blue), escalation to the MPC (in darker blue) and further escalation to Ofwat (in grey).



Conclusion

In conclusion, changes to the performance rectification plan should remedy poor performance that most impacts customers in a time manner. The main changes include:

- ◆ Removal of the IPRP stage of the rectification process
- ◆ Faster process to escalate performance concerns to PRP
- ◆ Clear triggers for the beginning of the performance rectification process
- ◆ More effective use of audit and reassurance to improve performance
- ◆ A less administrative approach for both the trading party, MOSL and the MPC

By doing this, we will begin to see

- ◆ More effective and timely rectification of trading party performance
- ◆ Focus on the poorest performance and those that are of most detriment to customers
- ◆ More onus on trading parties to take action to avoid escalation to the MPC
- ◆ More effective use of the rectification tools available to MOSL and the MPC.

In making these changes MOSL and the MPC would expect to see much faster improvements in performance levels across the market, gain a better understanding of what is causing the poor performance seen and what the challenges are to achieving higher levels of performance. By focusing on those performance measures that are of most detriment to customers, it is also expected that this will benefit customers and their interaction with the market.