User Forum

19 September 2019

MOSL
MARKET OPERATOR SERVICES LTD

Agenda

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Item *	Description	Who	Time
	Registration Tea and coffee on arrival	Trading parties	09:30 - 10:00
	Live video streaming starts*		10:00
1	Welcome Housekeeping	Steve Arthur	10:00 – 10:10
2	Market Improvement update - MPOP	Steve Arthur	10:10 – 10:50
3	Ofwat ‘State of the market’	Shaun Kent - Ofwat	10:50 – 11:30
4	Coffee break		11:30 – 11:45
5	MAC Panel round up Trading Disputes guidance update ISA guidance update	Steve Arthur Tom Daborn	11:45 – 12:00 12:00 – 12:30 12:30 – 13:00

Agenda

Item *	Description	Who	Time
6	Lunch		13:00 – 13:45
7	CCWater: Voice of the customer	Lucy Byrnes - CCWater	13:45 – 14:15
8	MPF Redistribution	Nigel Sisman	14:15 – 15:30
9	AOB and close	Steve Arthur	15:30 – 15:45
	Live video streaming ends*		15:45

*** Please note: agenda items 1-9 will be videoed and streamed live. Streaming will end at 15:45.**

Welcome

Steve Arthur

MOSL
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Market Performance Operating Plan (MPOP) 2019/20

Steve Arthur

MOSL

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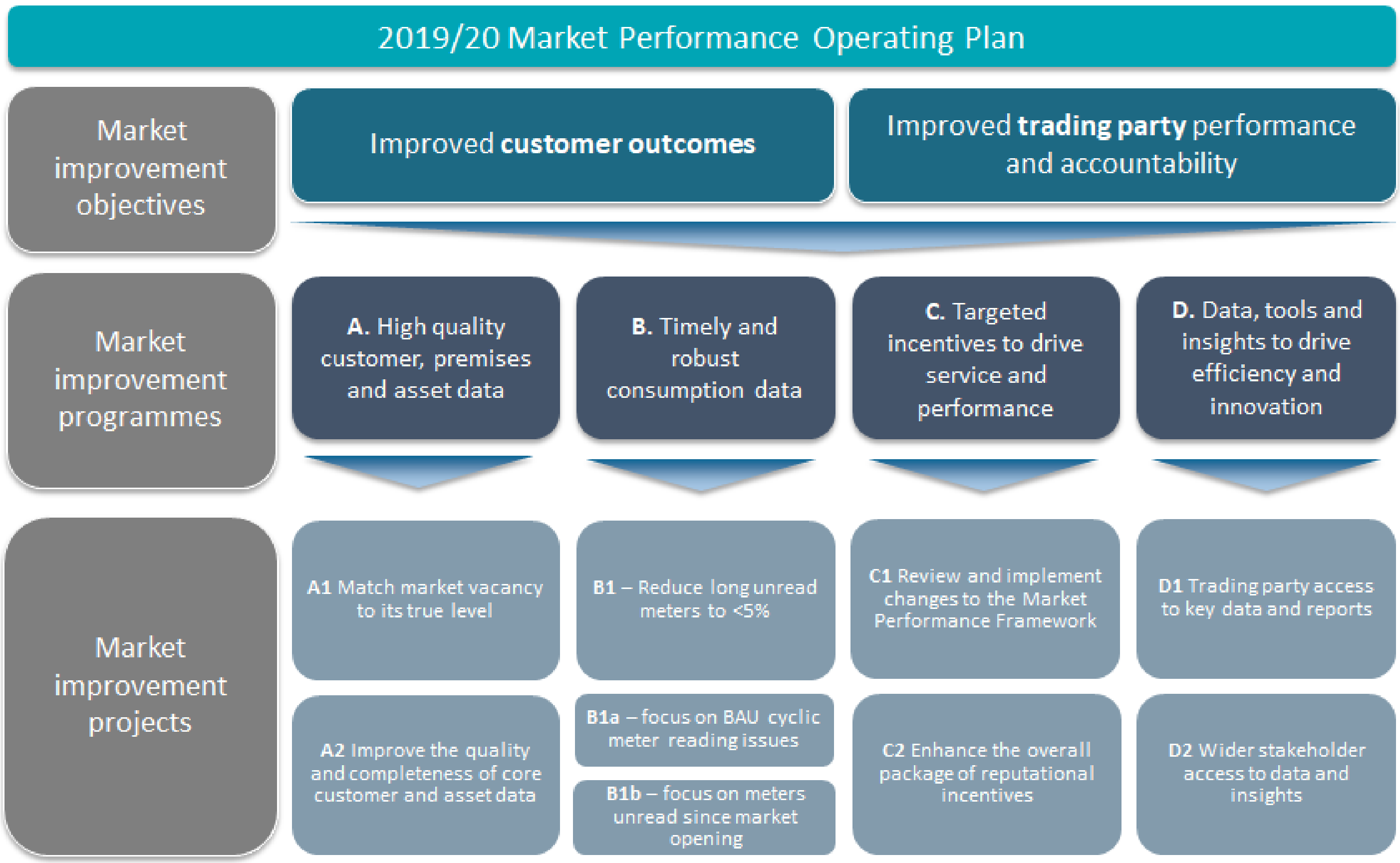
MPOP Overview



Appendix: September 2019 MPOP Reporting

HEADLINE MESSAGES:

- Working group sessions held for Vacancy and Long unread meters considering root-causes, ongoing reporting needs and potential solutions; PwC engaged to compliment this work through trading party visits as part of market audit
- Scoping session held for with Economic Insight for 3-year roadmap; first visioning workshop on Monday 16
- MPF redistribution change raised and submitted for gate-1 review at September Panel in parallel to period of consultation.

A. High quality customer, premise and asset data

KEY MARKET-LEVEL INDICATORS:

Metric	August	vs. 18/19 year end
% premises vacant	17.7%	↑ 0.5%

B. Timely and robust consumption data

KEY MARKET-LEVEL INDICATORS:

Metric	August	vs. 18/19 year end
% meters unread 12m+	14.5%	↑ 0.1%
# meters unread since market opening	40,868	↓ 12,602 (-24%)

C. Targeted incentives to drive service and performance

KEY MARKET-LEVEL INDICATORS:

Metric	August	vs. April
WS MPS performance	88.2%	↑ 2.0%
RET MPS performance	80.6%	↑ 1.3%
WS OPS performance*	89.95%	↓ 0.99%

** Excludes OPSG4a/b – performance including G4 is 93.1% (August), 95.2% (July), 92.9% (June)*

D. Data, tools and insights to drive efficiency and innovation

KEY MARKET-LEVEL INDICATORS:

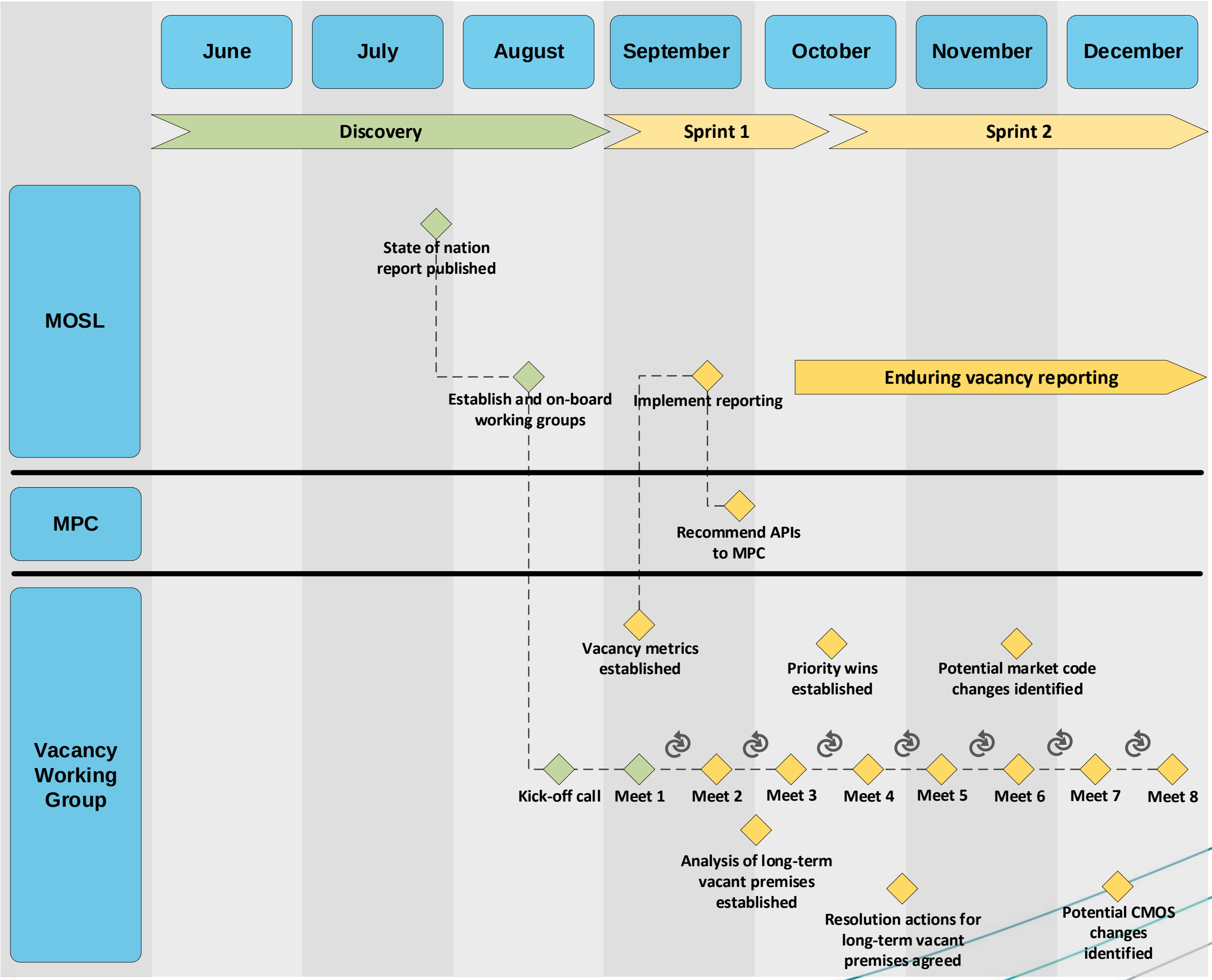
Metric	Current month	vs.
n/a	n/a	n/a

Programme A: Vacancy

Vacancy working group selected: two calls have taken place, with face-to-face to be held in first week of October

- High-level requirements for analytics and reporting established to enable group to focus on root of issues and enable ultimate resolution
- MOSL to develop new reports to compliment what is already available via Portal
- Vacancy challenge process to be reviewed as part of working together session, with a view to market code change
- Live and historic CMOS defects to be reviewed to understand potential impacts and identify opportunity for potential correction
- Insight from meter reading visits to be integrated from long unread meter reading group
- Consideration of third-party sources to compare vacancy rates.

A. Vacancy



June
July
August
September
October
November
December
Discovery
Sprint 1
Sprint 2
MOSL
State of nation report published
Establish and on-board working groups
Implement reporting
Enduring vacancy reporting
MPC
Recommend APIs to MPC
Vacancy Working Group
Vacancy metrics established
Priority wins established
Potential market code changes identified
Kick-off call
Meet 1
Meet 2
Meet 3
Meet 4
Meet 5
Meet 6
Meet 7
Meet 8
Analysis of long-term vacant premises established
Resolution actions for long-term vacant premises agreed
Potential CMOS changes identified

Programme B: Long unread meters

Skip-codes and unattempted

Working group selected: two calls have taken place to date

- Trading parties have shared local skip-code data with group to enable cross-party analysis, potential standardisation of reporting and understanding of potential resolution activity
- MOSL to facilitate collaborative working between retail-wholesale pairs to resolve specific issues
- Learning will be fed back to working group to share best practice and to build up guidance framework
- Consideration of broader longer term changes to resolve causality, rather than to just treat symptoms
  - Possible code and system changes (e.g. market performance standards)
  - Target incentivisation
- Insight from third-parties to be considered (meter reading providers).

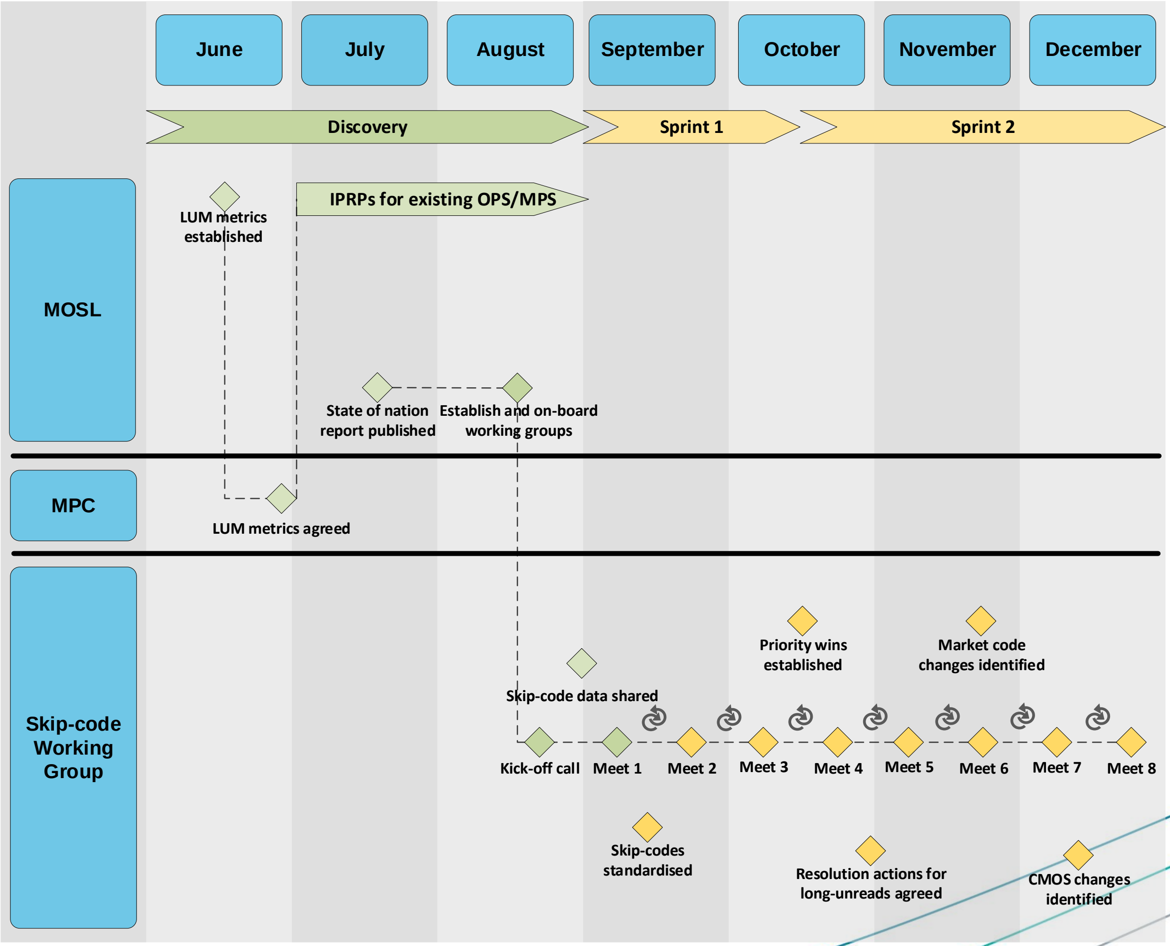
Programme B: Long unread meters

Read-rejections

Working group being established this week: kick-off call w/c 23 September followed by minimum of two sprints of work to:

- Understand variety and volumes of reject-reasons
- Consider quick-win workarounds and local process changes
- Develop proposals for market-code and CMOS changes (e.g. remove case-sensitivity from serial numbers).

B. Long unread meters



Programme C: Market Performance Framework (MPF)

Three projects

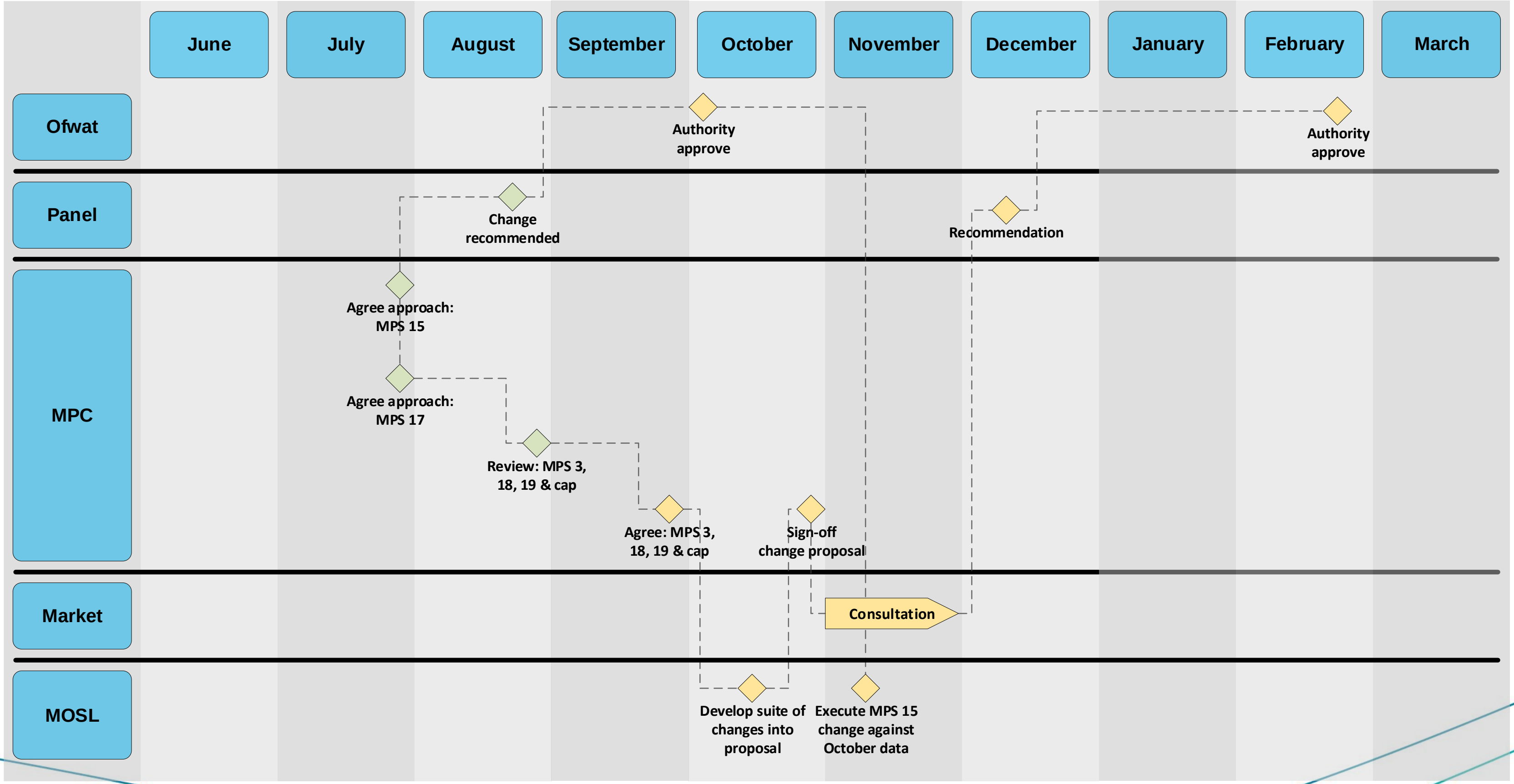
- MPF redistribution – Nigel Sisman presentation
- Priority MPF changes
- 3-year strategic MPF roadmap.

Programme C: Market Performance Framework (MPF)

Priority changes

- Suite of "quick-win" evolutionary changes to adapt to the learning of the first-year of the MPF
- One change proposal recommended by August Panel (MPS15) – targeted for accelerated authority decision and November implementation (against October data)
- Second package of changes being considered by Market Performance Committee (MPC), with aim of progressing to October or November Panel recommendation
- Implementation for 2020/21 financial year.

Priority changes

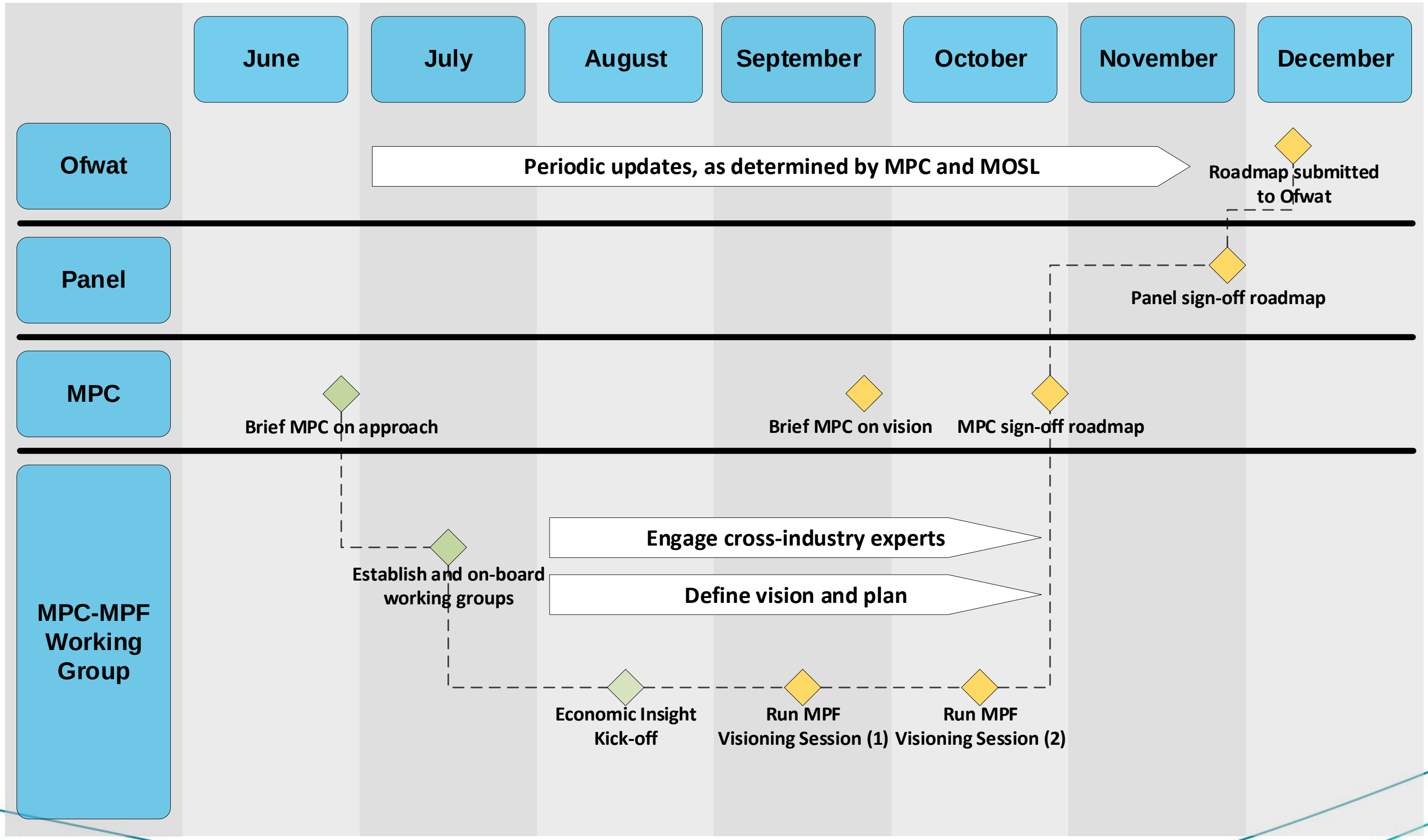


Programme C: Market Performance Framework (MPF)

3-year roadmap

- Strategic changes to MPF enabling MOSL to be pro-active to need for adapting framework as market changes over time
- Economic Insight group engaged to support via visioning workshops with cross-industry experts
- Roadmap to be reviewed and signed-off by MPC, Panel and Ofwat
- Visioning workshop 1 held on 16 September revisiting first principles and reconsidering what a successful MPF looks like
- Visioning workshop 2 targeted for 14 October.

3-year roadmap



MPOP 2019/20: Further reading

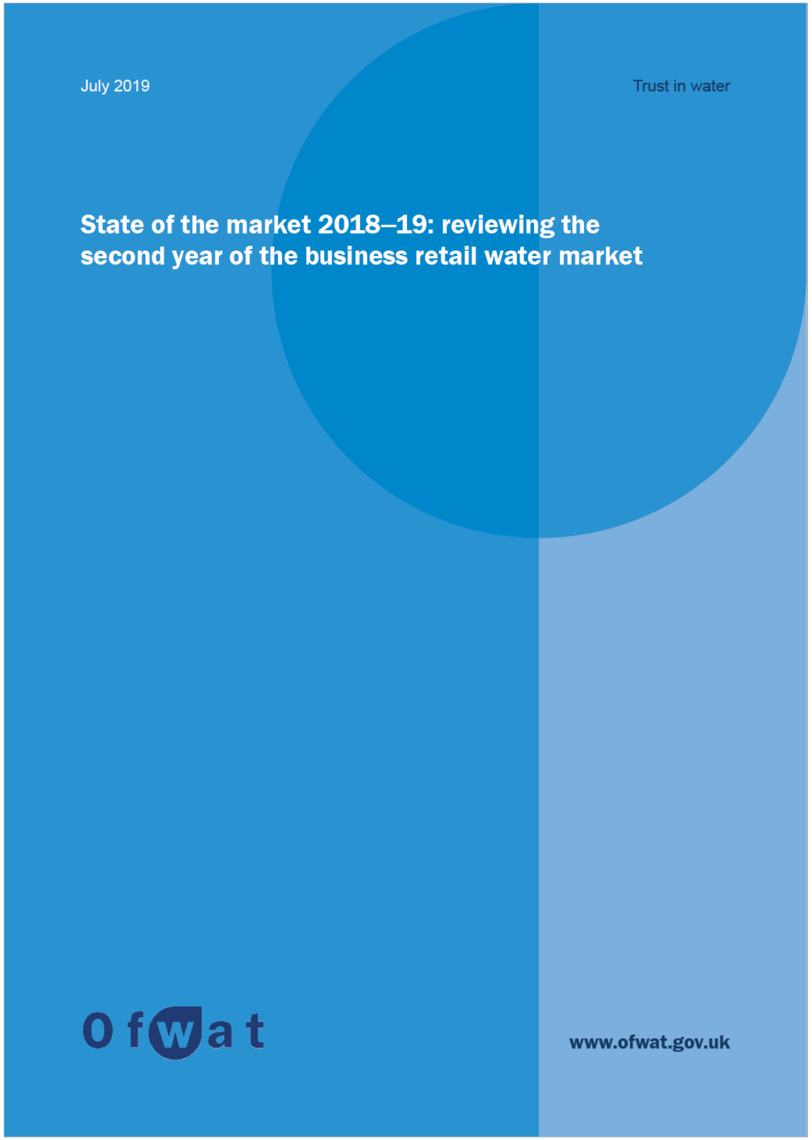
- MOSL Market Improvement page
- 2019/20 Market Performance Operating Plan
- Vacancy “state of the nation” report
- Long Unread Meters “state of the nation” report.

Ofwat State of the market update

MOSL User Forum

Shaun Kent
Principal, Market Outcomes and Enforcement
Ofwat

Ofwat’s second annual review of the business retail market published July 2019



- Ofwat committed to annual review of business retail market
- Second annual review published 11th July 2019 –
  - Objective account of:
    - developments in customer experiences and outcomes – including by customer segment
    - market evolution and development of competition
    - market frictions and progress in tackling these
  - Based on a range of data, information and evidence sources:
    - MOSL data
    - Retailer information requests
    - Requests to wholesalers – ‘spillover’ effects
    - Customer insight survey - quantitative and qualitative
    - Complaints data – particularly from CCWater
    - Discussions / interactions with business customers, wholesalers and retailers, and CCWater

Key findings second year of the market – Customer activity and outcomes

13% of customers active since market opening
(up from 10% in first year)

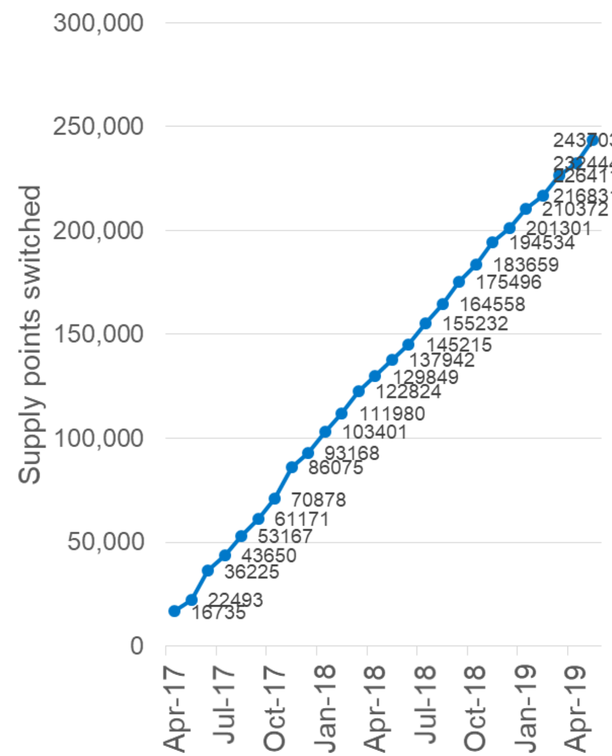
53% of customers aware of possibility to choose retailer
(up from 48% in first year)

2% average price saving, relative to default tariffs
(down from 3% in first year)

4% of customers switched or renegotiated in second year of market
(against 3% switched, 1% renegotiated in first year)

x4 increase in annual complaints, compared to before market opening

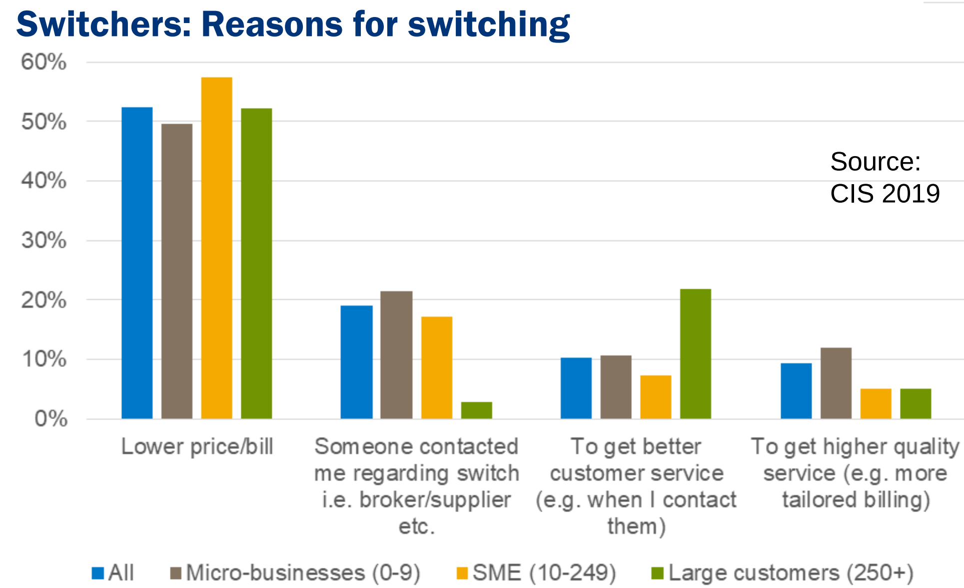
Steady switching since market opening

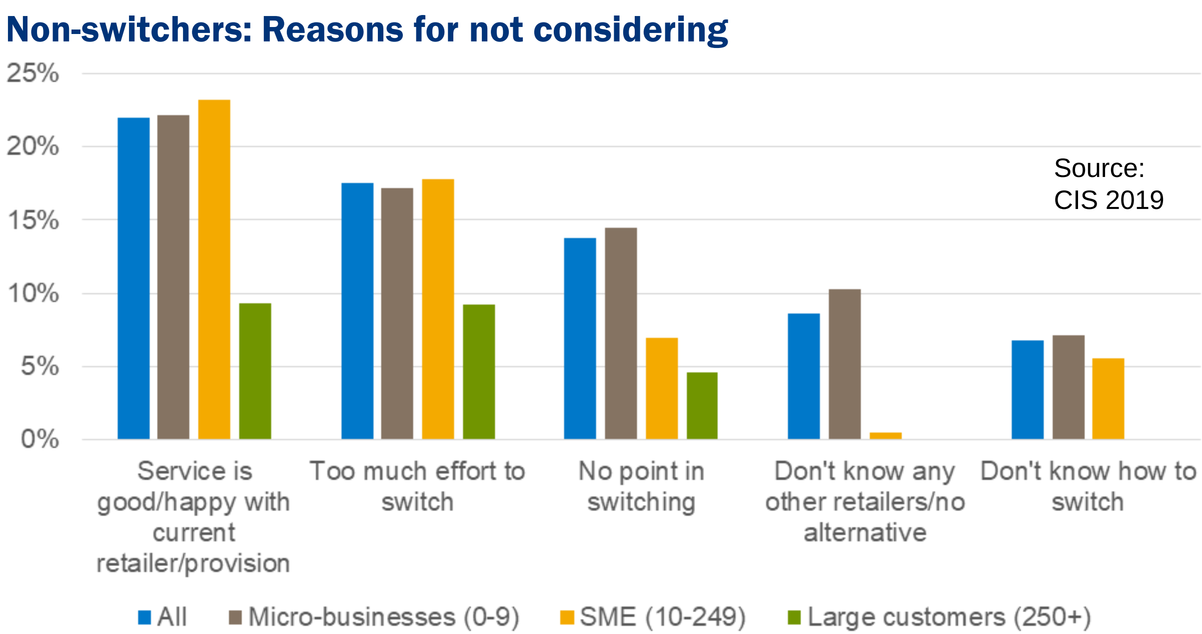


Source: MOSL

Lower bills	Water savings	Time savings	Wider benefits
• Realised savings of £10m in second year, switched / renegotiated • (£8m in first year)	• 4% switchers took up water efficiency • Self suppliers saved ≈150 Ml water in 2018	• 19% of switchers said they saved time as a result of switching • (but 12% *increased*)	• Some improvements driven by business market do ‘spillover’ to household customers

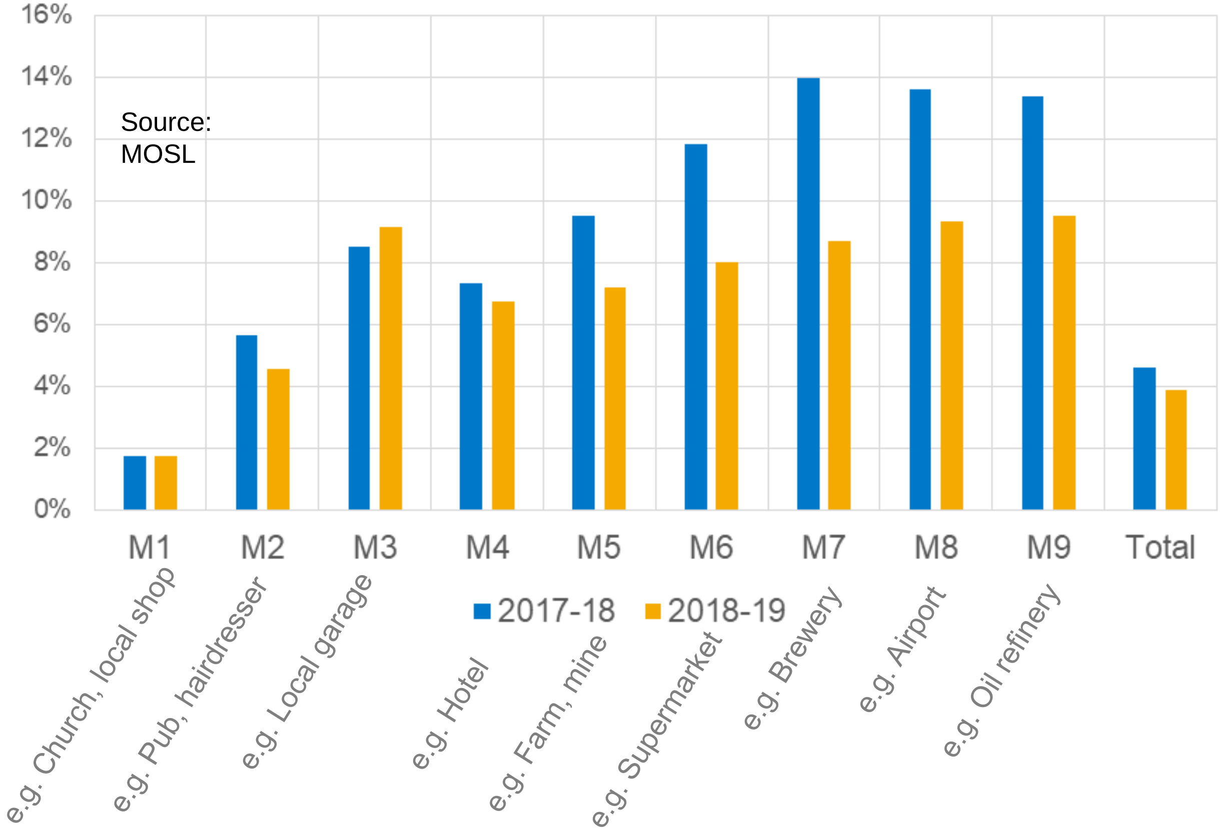
Motivations for engaging in market principally around price – though customer service plays a role





- Clear that price is main motivator for all switchers – though customer services significant too
- Evidence indicates that smaller customers perceive 'costs' of switching as greater than 'benefits' – eg. micro businesses much more likely to cite 'too much effort' or 'no point in switching' compared to larger customers
- Note CIS in-depth surveys found that:
  - for those smaller organisations yet to act on switching and renegotiating, there was a consensus that a saving of 15-20% on their bills would be sufficient – but that many didn't feel this was a realistically achievable saving
  - for medium and large organisations, the prospect of 5% bill saving was enough to motivate switching or renegotiation

Proportion of supply points switched by consumption category



- Switching rates remain higher for higher consumption customers
- Customer insight survey 2019 results suggest similar:

in last 12 months (ie. 2018/19):	Switched	Renegotiated
All customers	3%	2%
Large customers	15%	4%

Source: CIS 2019

Proportion of customers 'active' since market opening

All customers	Micro-businesses (0-9 employees)	SME (10-249 employees)	Large customers (250+)
13%	12%	18%	36%

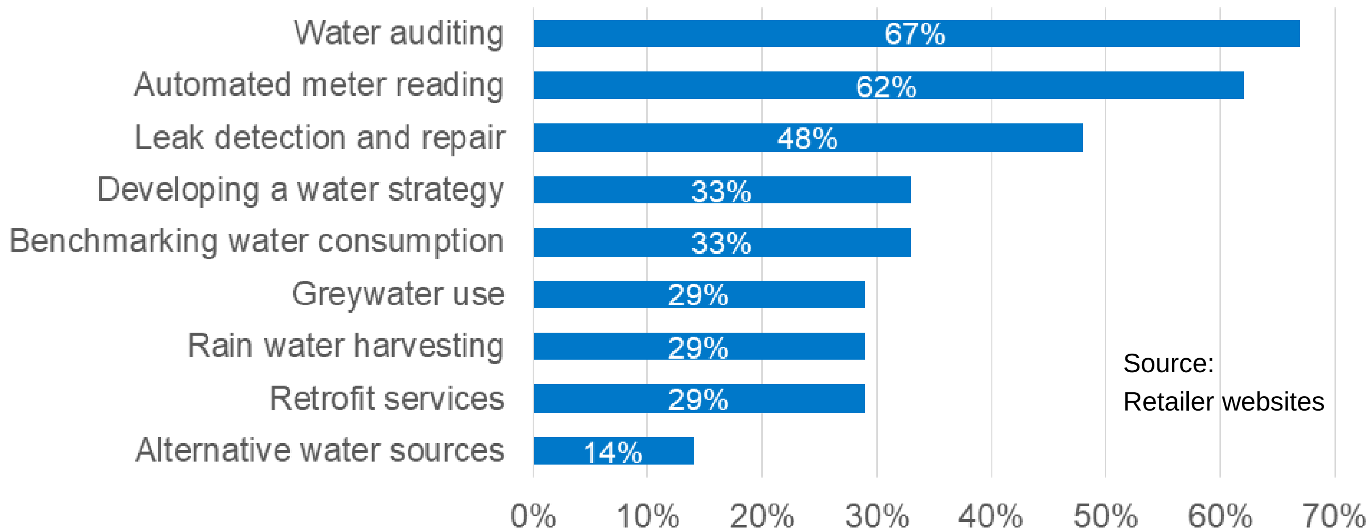
Source: CIS 2019

Take up of value added services – such as water efficiency services – muted so far

Market for water efficiency services slow to take off – likely reflecting customer focus on price, plus some barriers to take up.

(Though note that some larger customers – particularly self-suppliers – are very interested and have achieved significant water efficiency savings.)

Water efficiency services offered across the market



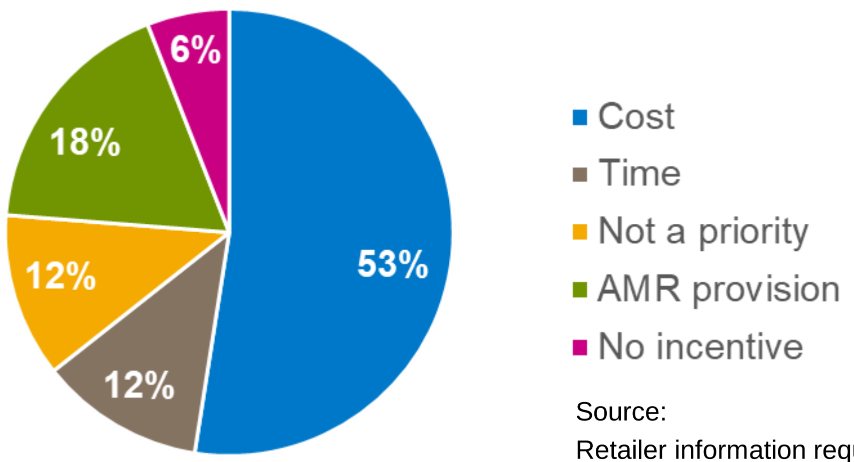
Source:
Retailer websites

Take up of water efficiency / leak detection services by switchers or renegotiators

	% reporting water efficiency or leak detection services as a benefit of switching or renegotiating	% reporting take up of water efficiency services as a result of having switched or renegotiated
Switched	0.3%	4%
Renegotiated	4%	22%

Source: CIS 2019

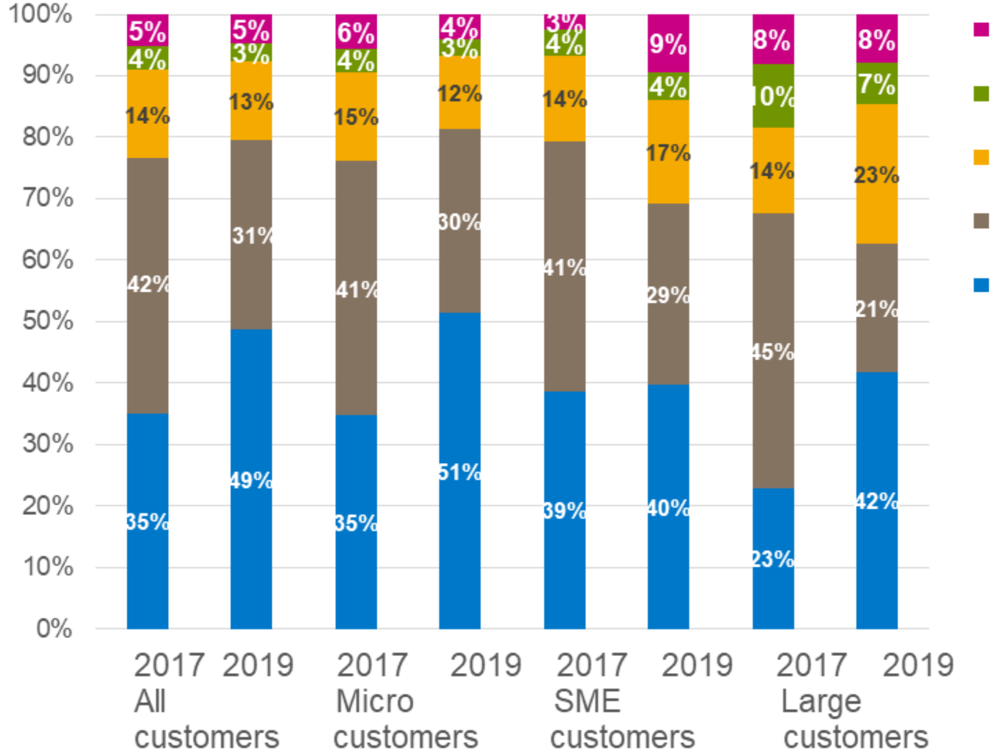
Proportion of retailers citing barriers to take up of water efficiency services



Source:
Retailer information request

Customer satisfaction broadly holding up – but 'dissatisfaction' levels in second year increased – driven by issues with billing and poor customer service

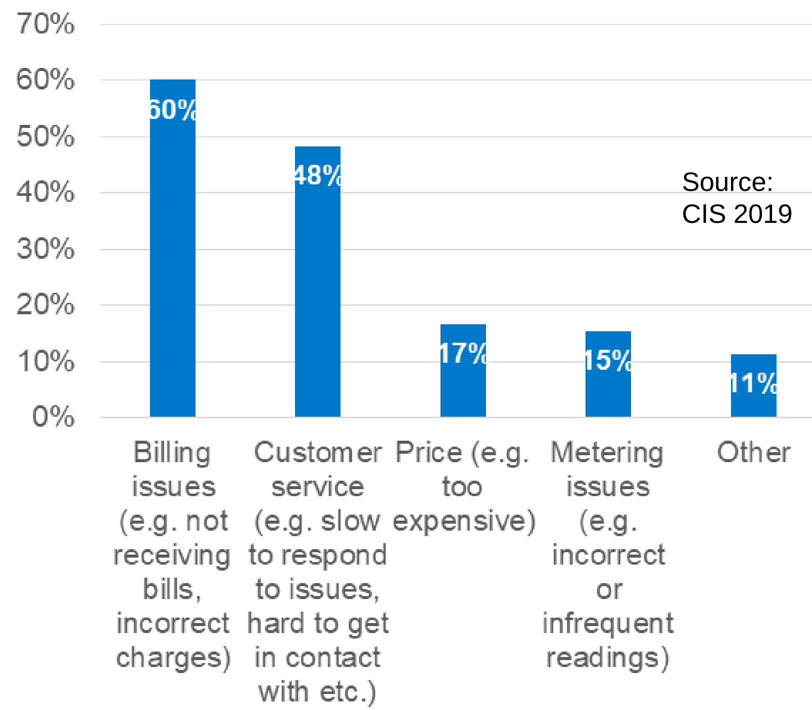
Satisfaction with retailer



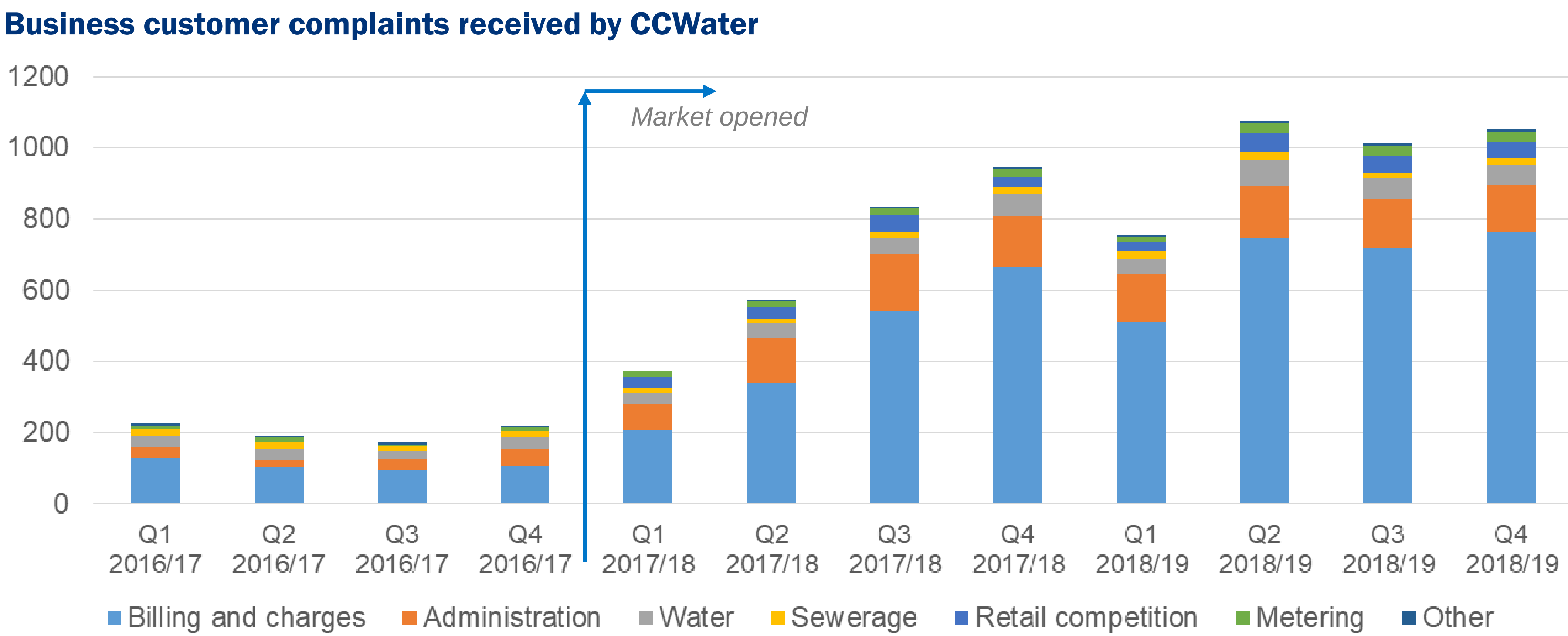
Source: CIS 2019

Problems with customer service and billing are also leading issues cited by customers where they have had any problems and/or contact with their retailer – Eg. 6% of all customers reported having experienced a problem with their retailer in last 12 months, with a quarter (24%) citing problems with customer services such as billing.

Reasons for dissatisfaction with retailer



Customer dissatisfaction also clearly expressed through increased level of complaints



Type of complaint	April 2016 – March 2017	April 2017 – March 2018	April 2018 – March 2019
Written complaints to retailers	11,772	14,885	17,918
Complaints to CCWater	824	2,780	3,975
Complaints to Ofwat	NA	327	482

Sources: CCWater and Ofwat

Retail landscape continues to evolve

Entry and exit

- New entry – eg. Smarta Water, Utility bidder
- Exit - Aquaflow first major exit –using powers under the Interim Supply Code , Ofwat allocated Aquaflow customers (c.75) to Clear Business Water
- Yorkshire looking to pursue 'retail exit' ➔ transfer of customers to Business Stream

New entry activity

- New entrants in second year of market taking around two thirds of supply points switched – with new entrant Everflow seeing greatest gain in supply points
- Incumbents retaining around 97% net market share (by supply point) – though own in-area losses vary between 4% to 14%

Self supply retailers

- Five self suppliers licensed by Ofwat in 2018/19, up from four in 2018/19

2017/18	Coca-cola, Greene King, Marstons, Whitbread
2018/19	Blackpool council, British Telecom, Elis/Berendsen, Heineken, Stonegate
2019/20	Nottingham City council. (NB. John Lewis have applied to Ofwat)

- Self- suppliers continue to report a number of benefits from this business model

Effective market functioning – some progress in year 2 but significant challenges remain

Trading parties, MOSL and Ofwat have seen initiatives in year 2 begin to bear fruit eg.:

- MOSL – including but not limited to:
    - publication of MPOP – clear objectives for the improvement of customer outcomes, and of trading party performance and accountability
    - Extensive programme of work aimed at greater market performance transparency, and improving trading party performance and data quality
- Trading party work eg. establishment of RWG, commitment to MPF and DIPs
- Penalties under MPF 'biting harder' eg. as financial penalties for OPS performance came into effect

However, market frictions identified in year 1 remain:

Wholesaler performance	Data quality	Wholesaler – retailer interactions
• Poor aggregate performance of wholesalers against the industry standards – eg. across the market, only ≈80% of MPS tasks completed on time (2018/19).	• A lack of complete, accurate and timely market data – for example there continues to be a number of incomplete or missing data items and inaccurate customer data.	• Poor interaction between wholesalers and retailers - sometimes makes it difficult for retailers to operate in the market, eg. where difficult to identify meter location.

which can – among other things - affect the customer experience in the market (eg. inaccurate billing), increase retailer costs, and hinder retailers' ability to offer value added services.

***Ofwat view** - It's clear that market frictions are significantly impeding effective market functioning and hence the delivery of better customer outcomes.*

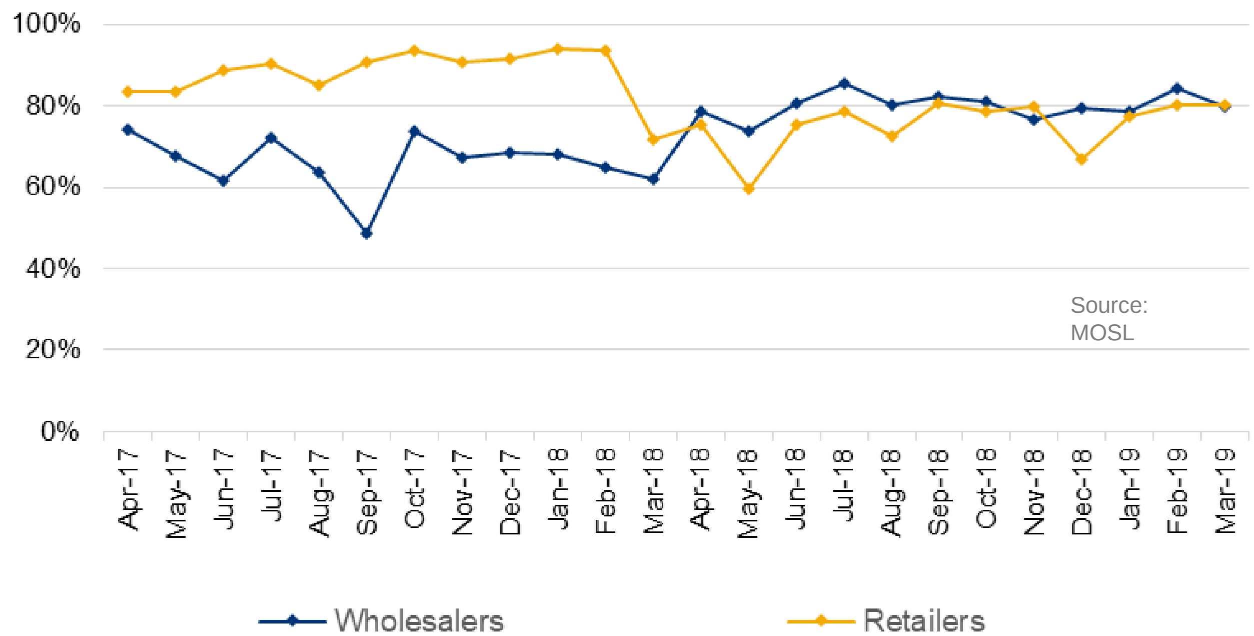
Performance against MPF– some improvements but concerns remain

Trading parties, MOSL and Ofwat have seen initiatives in year 2 begin to bear fruit.

For example, concerning performance against MPS, wholesaler performance in aggregate increased:

- 80% of MPS tasks completed on time in 2018/19, up from 66% in 2017/18
- All bar one wholesaler (South West) saw improvements

Wholesaler and retailer performance against MPS



However, concerns remain:

- Substantial variation in wholesaler performance on MPS in 2018/19 – from 97% (Bristol Water and Dŵr Cymru) to 60% (Southern, and South East Water)
- Wholesaler performance against OPS standing at 63% in 2018/19 – again with substantial variation across wholesalers
- Retailer performance in aggregate against MPS standards deteriorated in 2018/19 – 75% of tasks completed on time against 89% in 2017/18.

Overall we remain concerned that wholesaler performance remains below the level we expect to support efficient market functioning.

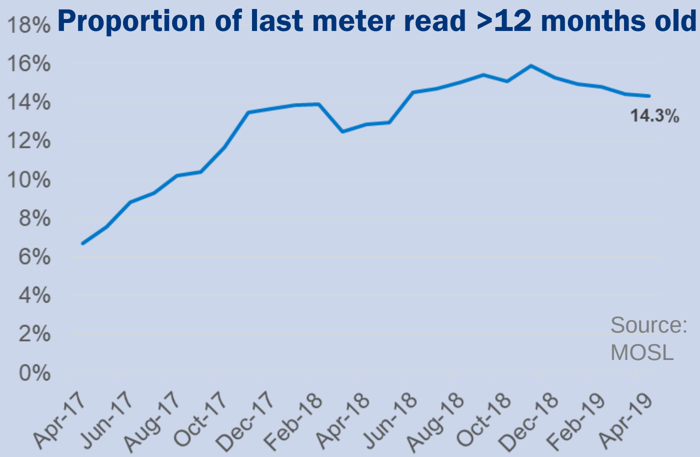
Data quality – mixed picture on improvements

Concerted efforts in year 2

- MOSL renewed and continued focus on improving accuracy of data held in CMOS
- Trading parties submitted Data Improvement Plans and have worked to ensure quality data
- Some measurable improvements over the year – eg. roughly 90% reduction in monthly ‘user exceptions’, improvements in YVEs

Work remains

- MOSL AMPR for 2018/19 highlighted that key data necessary for accurate customer billing – meter reads and consumption data – too often inaccurate, incomplete, and/or late
- Furthermore, performance in the key area of the timeliness of meter reading has deteriorated rather than improved
- Note that trading party performance against MPS and OPS can compound data quality issues.



Effects

- Our customer insight survey – quantitative and qualitative, complaints made to CCWater and reports and feedback from customers and their representatives continues to highlight that many customers continue to experience billing issues and disputes.

Wholesaler – retailer interactions – some issues remain, impacting customer experiences

Effective market functioning and customer experience

- Wholesaler – retailer relationship
  - ➔ clarity, easily accessible and consistent approaches to wholesaler charges and policies facilitate retailer entry and operation
- Retailer – end customer relationship
  - ➔ Retailers act on behalf of a customer where wholesaler activity or services are required for the benefit of the end customer
- Poor wholesaler – retailer interaction can affect both relationships – leading to higher entry and operation costs for retailers, and a poorer experience for end customers

Some work and improvements in year 2

- Some retailers suggested retailer – wholesaler communication and relationships have improved in year 2 – perhaps on back of ‘Freeze Thaw’
- RWG undertaking work to revisit its ‘unplanned events’ guidance

But issues remain

- Inconsistencies in wholesalers’ approaches
- Instances of poor communication
- Lack of consistent and appropriate incentives or KPIs on wholesalers
- Lack of a relevant dispute mechanism

Recognise that all parties are undertaking work to tackle these frictions – including current initiatives:

	Market participants	Market operator (MOSL)	Panel	Ofwat
Wholesaler performance • Poor aggregate performance of wholesalers against the industry standards.	• Wholesalers working to perform to industry requirements and so support efficient market operation	Work to improve transparency and visibility: • Annual Market Performance Report • Market 'Dashboards'	Number of initiatives including: • Escalation process - Panel developing 'escalation' process to monitor and enforce performance • Voting arrangements – amended to facilitate more efficient decision making • CCWater representation at Panel – the 'customer voice'	• Consider incentive arrangements for wholesalers – *Nov 2018 - Call for Inputs* *Jun 2019 - CFI outcomes report* • Rachel Fletcher May 2019 letter
	• Initial Performance Rectification plans • Multi-year plan for Market Performance Framework development			
Data quality • A lack of complete, accurate and timely market data.	• Accurately populate CMOS database – eg. complete and timely meter reads, meter location data	• Market Performance Operating Plan (MPOP) prioritises the improvement of customer outcomes, and set out plans and targets to tackle data quality.		• Monitor and understand form and impact of issues
	• Data Improvement Plans			
Wholesaler – retailer interactions • Poor interaction between wholesalers and retailers	• Retailers and Wholesalers working together eg. through Retailer – Wholesaler Group (RWG) • MOSL's MPOP plan for industry led initiatives to consider number of wholesaler - retailer interaction issues – eg. Trade effluent processes, Bi-laterals complexity • MOSL development of a central bi-laterals solution			• Letters relating to credit and metering services in the business retail market • Monitor and understand issues

Stepping up pace of progress – Rachel Fletcher May 2019 letter to chief executives of incumbent water companies

Rationale

- need for industry to support development of competition across number of markets, including business retail
- the overall level of incumbent water company support for markets is unacceptable.

Insufficient support for development of competitive market

While we see some clear examples of incumbent water companies taking positive and pragmatic action to support the development of markets, we also see numerous, persistent examples of incumbent water companies failing to support the development of effective markets – in particular the markets for business retail and developer services.

- In some cases incumbent water companies are giving insufficient thought to the potential impact that their actions (or inaction) can have on the effective functioning of markets for customers.
- In other cases we see companies actively opposing or delaying initiatives that are aimed at improving these markets.

Actions

- Replies to letters expected by end October 2019
- We will be monitoring incumbent water companies over the next few months and will review progress in the autumn, including whether particular companies are holding up progress overall.
- If we do not see significant improvements we will increase the pace and extent of pressure we exert on incumbent water companies, considering the full range of regulatory tools we have at our disposal.

Thank you and questions

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www.ofwat.gov.uk
mailbox@ofwat.gov.uk

www.ofwat.gov.uk

Twitter.com/Ofwat

MAC panel roundup

Steve Arthur

MARKET OPERATOR SERVICES LTD

Solution Design

- CPW063: 'Chargeable data – fixed RTS'
- CPW070: 'Bilteratls interface solution'.

Consultation

- Currently in consultation
  - CPW069: ‘Right of a Retailer to appoint an Accredited Entity’
- Upcoming consultations
  - MPS & OPS redistribution options

Awaiting Panel Recommendation

- CPM015 & CPW071: ‘Panel self governance’

Awaiting Authority decision

- CPW068 & CPM017: ‘MIMP Committee revisions’
- CPM013: ‘Adding the customer as a voting Panel member’
- CPM006: ‘Introducing a process for urgent change proposals’
- CPW057: ‘Credit Proposal 1B: Improving the transparency of guarantee credit arrangements’
- CPW059: ‘Changes to review obligations’

Awaiting Authority decision

- CPW060: ‘Credit Proposal 4: Amendments to the provision of credit assessment score evaluation for the purposes of unsecured credit allowance’
- CPW061: ‘Unsecured credit allowance based on payment history’
- CPW062: ‘Household indicator flag’
- CPW064: ‘Changes to corrective settlement runs for individual supply points’
- CPW066: ‘Estimation review’
- CPW072: ‘Setting MPS15 charges to zero’

Authority decision received

- CPW065: ‘Retailer notification’
- CPM016: ‘Voting Majorities’

Release Schedule

30-Sep-19	Code
Ref	System
CPM006	N
CPM013	N
CPM016	N
CPM017	N
CPW057	N
CPW060	N
CPW061	N
CPW068	N

01-Oct-19	Code
Ref	System
CPW072	N

08-Nov-19	CMOS
Ref	System
CPW056	Y
CPW059	N
CPW064	N

14-Feb-20	Code
Ref	System
CPW067	Y
CPM015	N
CPW071	N
CPW069	N

31-Mar-20	Code
Ref	System

15-May-20	CMOS
Ref	System
CPW062	Y
CPW065	Y
CPW066	Y

13-Nov-20	CMOS
Ref	System
DCP013	Y

Approved
In Progress

Trading disputes

Guidance and overview

Tom Daborn

MOSL
MARKET OPERATOR SERVICES LTD

Trading disputes

What is a trading dispute?

A trading dispute can be raised between two parties based on the following criteria:

- The trading parties are disputing a data item
- The trading party has raised a query with MOSL
- The disputing party has notified the other disputing party(ies) in writing of the dispute and held a meeting to attempt resolution
- The trading dispute is about primary charges
- The same data item/error has not been previously disputed.

Trading disputes

- It was clear that the industry needed clarity on the trading disputes process and for the associated timescales to be identified
- Number of trading disputes open for a length of time, demonstrating the need for a clear process and consistent escalation points
- As a result, MOSL and the Trading Disputes Committee (TDC) took the pragmatic approach to produce a guidance document to advise on best practice and the timescales within the process
- The document can be found under the Disputes section of the MOSL website: https://www.mosl.co.uk/disputes/trading-disputes.

Trading disputes guidance document

What does it include?

- ‘What is a trading dispute?’ section advising on the criteria that must be met and what should happen before raising a dispute
- A step by step walkthrough of the trading disputes process, from raising through to the outcome of the TDC
- A process map to illustrate the process and the various routes of which a trading dispute can follow
- A timeline to illustrate the exact timescales outlined and how these fit together.

Trading disputes guidance document

Non-contact

- In any instance where a set timeframe is outlined it is expected that parties will adhere to this. In circumstances where this is not possible, parties should contact MOSL to request an extension to this timeframe
- If the Service Level Agreement (SLA) has not been met and no reasonable contact has been received, MOSL will send a notification to the disputing party requesting an update
- Following this, trading parties are given 10 working days to respond to the notification. After which, the dispute may either be escalated to the TDC or closed if deemed appropriate by MOSL.

MAC / Non-trading disputes

A dispute raised by a trading party against either the Market Operator (MO) or another trading party, because it is felt that they have failed to comply in accordance with their obligations under the MAC codes.

MOSL will validate the dispute under the following criteria:

- Establish the dispute submitted is not an MO dispute, i.e. does not relate to a MOSL error on settlement
- Establish the dispute submitted is not a trading dispute, i.e. does not relate to a data error by a trading party impacting primary charges
- The nature of the dispute relates to the relevant sections of the codes provided in the submission
- The trading party has not previously submitted the same dispute.

MO disputes

A Market Operator (MO) dispute relates to concerns around inaccuracy of settlement.

An MO dispute can be raised in circumstances where the MO:

- Fails to provide a proposed rectification plan within two months of an instance where settlement has been identified as inaccurate
- Considers that no inaccurate settlement has occurred and a trading party disagrees
- Fails to implement its rectification plan in a timely manner
- Provides a rectification plan that is unclear, incomplete or otherwise materially defective.

Questions

ISA guidance update

Update and lessons learned

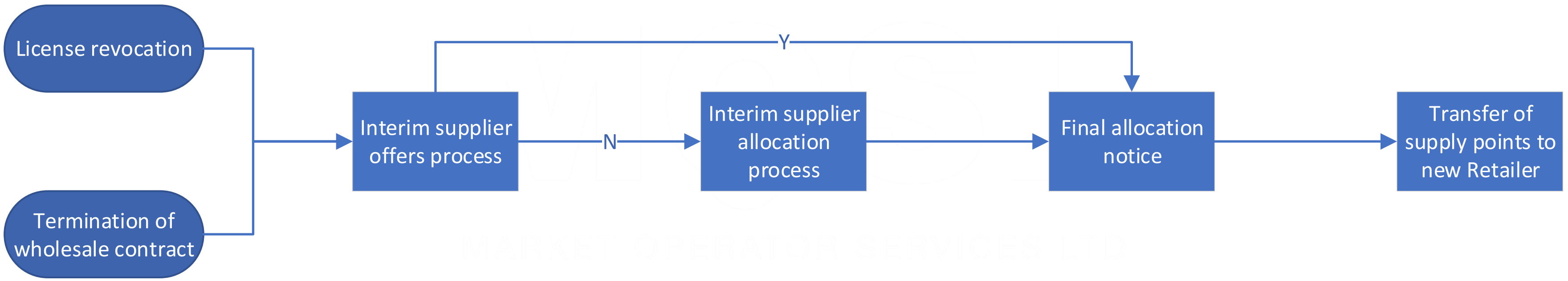
Tom Daborn

MARKET OPERATOR SERVICES LTD

Interim supply process

- In April 2019, MOSL and Ofwat operated the interim supply process for the first time since market opening
- MOSL and Ofwat have since completed a review of the Aquaflow ISA event and have taken away a number of learnings based on the feedback received from trading parties, as well as any operational pitfalls identified during the first run through of the process
- A number of the actions taken away from the review of the Aquaflow ISA event have now been completed and implemented to improve the ISA process for any future events.

Interim supply process



Interim supply process - lessons learned

As part of the review exercise, MOSL asked for feedback from trading parties, based on their experience of the first ISA event. All of this feedback was collated to produce a list of actions between Ofwat and MOSL. Some of the changes included:

- Updating the FAQs on the MOSL website, to reflect the questions that were asked by trading parties during the ISA event. Including questions regarding retailer/wholesaler responsibilities throughout the process
- Producing and publishing a guide on how to update ISA agreements on CMOS (how to opt-in or opt-out)
- Reviewing the timescales for the different stages of the ISA process to incorporate feedback from trading parties, although these timescales may vary based on the volume of supply points to be reallocated.

Interim supply process - lessons learned

- MOSL are currently organising a simulation of an ISA event with a significantly larger number of supply points to be allocated. This is to ensure confidence in the process, regardless of scale
- Reviewing the end to end process and the communication points associated with each stage to ensure that trading parties are kept updated where appropriate
- Ofwat are reviewing the information requested from retailers during the offers process and the level of information that will be shared.

Questions

Market Performance Framework (MPF)

Options for the use of MPS and OPS charges

Nigel Sisman

MOSL
MARKET OPERATOR SERVICES LTD

Structure

- MPC scope and work activity
- Background to MPS and OPS treatment issues
- Economic Insight Report and proposals
- MPC consultation
- Process and next steps

Market Performance Committee (MPC) scope and work activity

The Market Performance Framework (MPF) is defined in CSD002

Area	Comment	Opportunities
Transparency and peer comparison	Information widely released to enable knowledge sharing	MOSL reviewing transparency policy MPC can ask for information and further publication
Financial performance incentives (MPS/OPS)	Incentives introduced but effectiveness currently dubious	Explored in next slide
Market Operator (MO) performance monitoring	Compliance monitoring established	MOSL working to establish better measures and reporting of effective service provision
Trading party performance rectification	MOSL well advanced with applying Initial Performance Rectification Plans (IPRPs)	Escalation policy to MPC/Panel developed but not yet tested
Reporting and Market Performance Operating Plan (MPOP)	Annual Market Performance Reports (AMPR) and MPOP delivered	This year's MPOP focusses on high risk areas and both progress here, and insight from next AMPR will inform subsequent developments

Financial performance incentives chronology

2017/18	2018/19	2019/20

• Review of standards regime	• Revised MPS standards and charges introduced (CPW030)
	• Revised redistribution
	  • (Original) CPM008 (rejected by Ofwat)
	  • (Revised) CPM008 (“temporary acceptance”)
	• OPS review
		• Revised OPS standards and charges (CPW049)
		• OPS redistribution undefined

2019/20 Activities

- MPF roadmap
  - To deliver a vision and understand transitional steps
- Priority April 2020 changes
  - To deliver a properly functioning MPS regime with meaningful incentive properties
- Options for use of MPS and OPS charges
  - To identify an acceptable and enduring approach

Focus for today

Context for the use of performance charges (1)

2017/18 mandated standards review

- MPC noted that retailers had far more tasks than wholesalers
- MAC envisaged redistribution of MPS charges to trading parties in proportion to MO charges
- MPC assessed the expected transfer of monies from retailers to wholesalers inappropriate.

Original CPM008 proposal

- Wholesaler and retailer charges to be held in separate 'pots'
- Wholesaler 'pot' to be redistributed to wholesaler only
- Retailer 'pot' to be redistributed to retailer only.

But, Ofwat…

- rejected CPM008 because of diluted incentives particularly for larger players
- sought an improved proposal or alternative treatment of charges.

Context for the use of performance charges (2)

Revised CPM008

- MPC developed a revised redistribution approached taking relative performance into account.

Ofwat approved revised CPM008 temporarily, but with “serious reservations” arising from:

- diluted incentives
- insufficient consideration of non-redistribution to obviate such diluted incentives.

→ Economic Insight (EI) invited to provide an independent perspective.

Understanding the dilution issue

- Under original CPM008 a £20 charge to a 10 per cent market share player delivers a discounted charge of £18
- Revised CPM008 also created diluted incentives and other unintended consequences

More generally

"How does redistribution affect incentive strength?"

- It does not change the ability of companies to improve
- But it *could* change whether the charge <> the cost of improvement

But the impact of incentives depends on whether the redistribution is caused by:

- The company's failures. **This redistribution could affect incentives**
- The failure of other companies. **This redistribution does not affect incentives.**

Defining an incentive neutral approach

- This could involve a model in which trading party's own fines are not redistributed back to them and the cap is removed
- This breaks the link between redistribution and the firm's own performance to deliver neutral incentive properties
- In practice this could be done by redistributing each firm's contributions to all trading parties based on market share – excluding their own.

Firm	Market share (%)	Total fines	Redistribute A's fines	Redistribute B's fines	Redistribute C's fines	Total redistribution
A	50	£50	-	£33.33	£33.33	£66.67
B	25	£50	£25	-	£16.67	£41.67
C	25	£50	£25	£16.67	-	£41.67

B and C have 50% market share when A is excluded

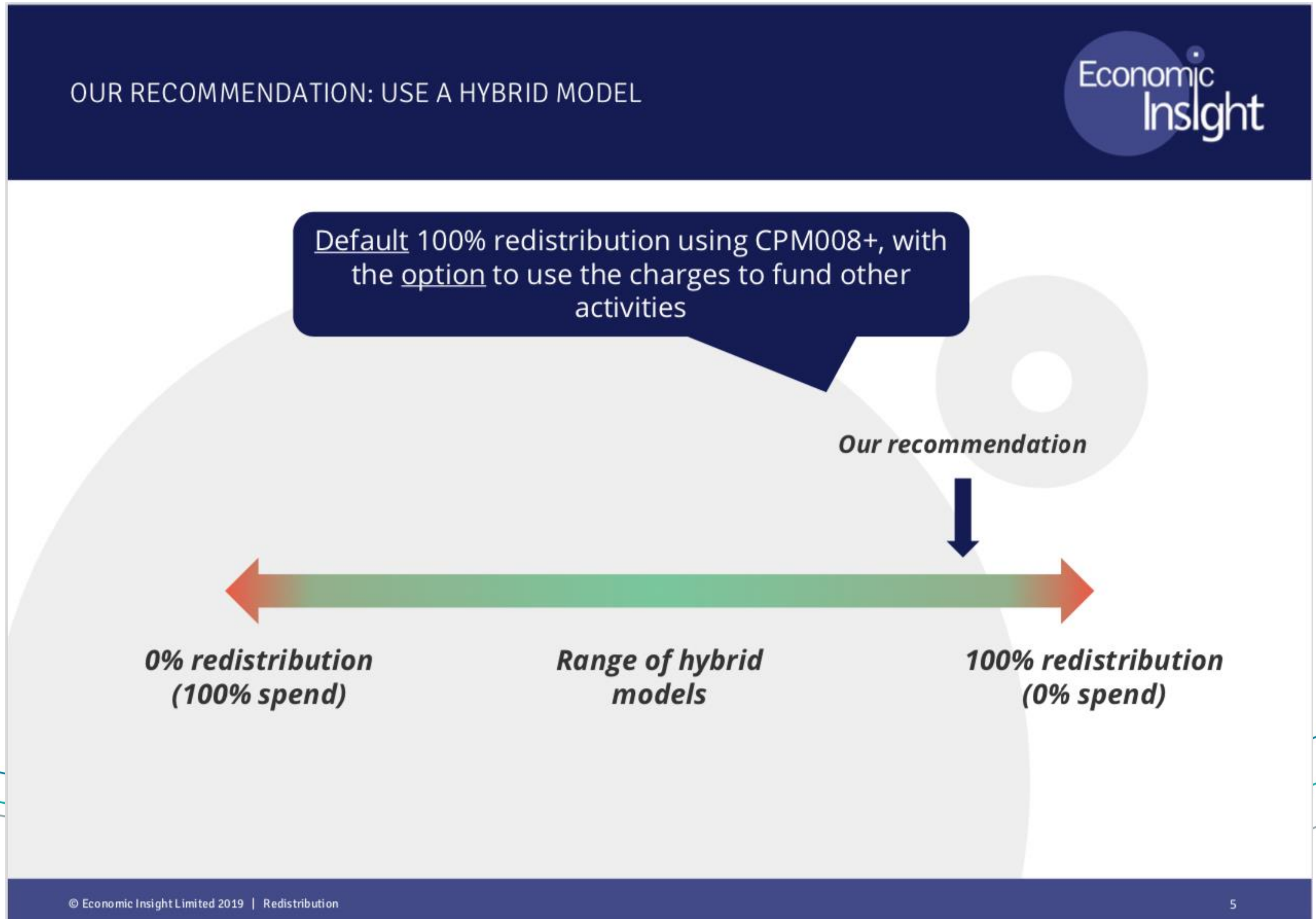
A has 66.6% market share when B or C is excluded

…but the Economic Insight (EI) consideration wasn't only about redistribution

It considered whether other approaches to the use of OPS and MPS charges might be appropriate and under what circumstances

The EI presentation slides that follow were presented to MPC29 on 25 August).

EI recommended a hybrid approach



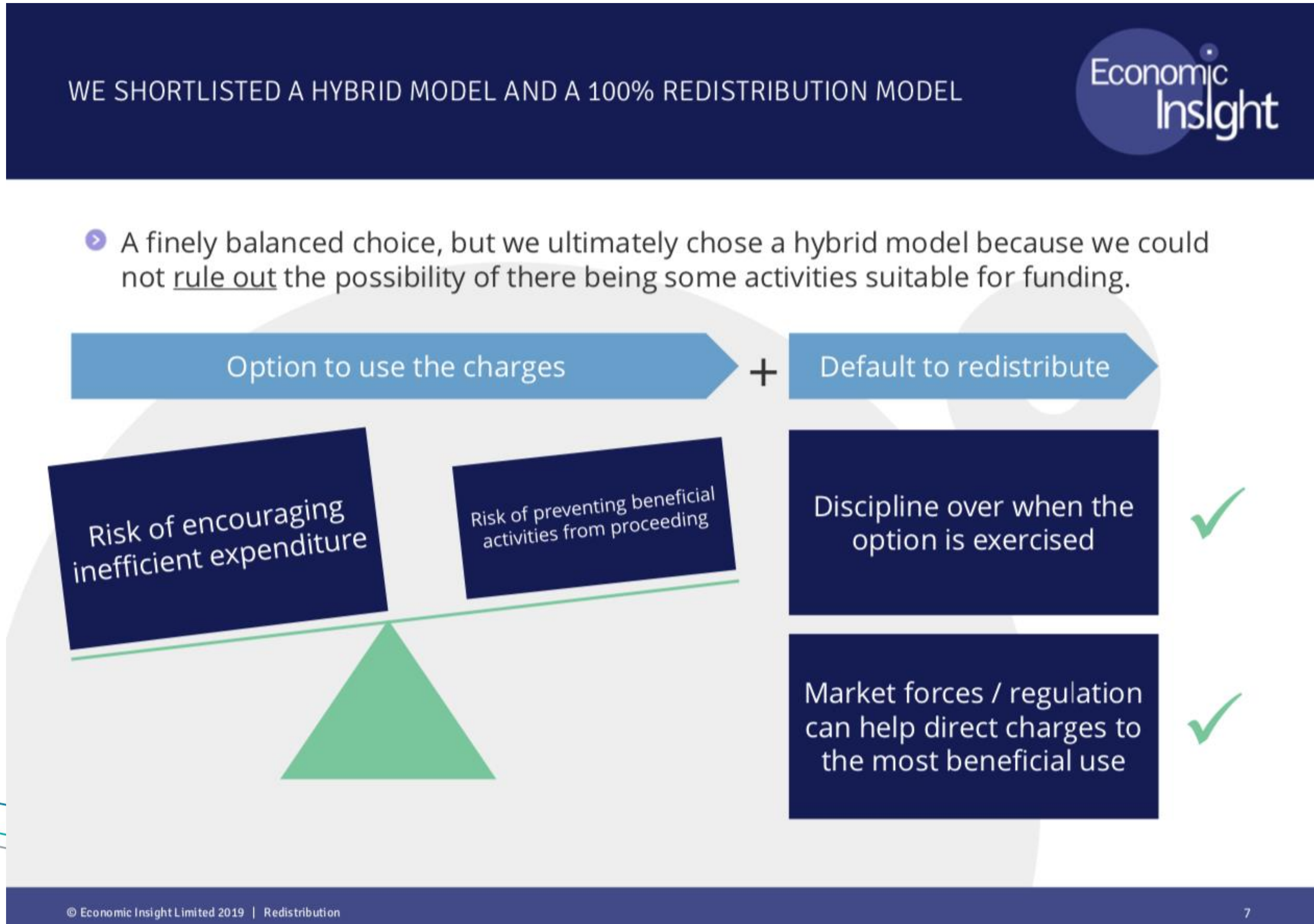
EI had reservations about spending on projects

WE RULED OUT 100% SPEND FOR TWO MAIN REASONS

High risk of inefficiency	Inappropriate funding mechanism
Doing activities that are not beneficial Doing activities where £Costs > £Benefits Crowding out market activities Undermining competitive advantages	Persistent increase in activities → increase MO charges? Temporary / one-off activities → one-off charges / voluntary payments?

Not required to solve incentive dilution concerns.

EI chose between a hybrid model and a 100 per cent redistribution model



EI finally recommended a hybrid with ‘likely, rare’ deployment of funds

KEY FACTORS / ASSUMPTIONS UNDERPINNING OUR RECOMMENDATION

Economic Insight

1. The hybrid approach would involve a redistribution model that does not dilute incentives.

   If we had not found an incentive neutral redistribution model, we could not have recommended it –

   It would have failed a key criterion set down by Ofwat and in our TOR.

2. It is possible to develop a framework that results in the option being exercised only when it is efficient to do so (likely, rare).

   If we had thought that this was practically impossible, we would likely have recommended 100% redistribution.

Exercising the option requires a governance framework

KEY DECISIONS / QUESTIONS FOR MPC

- Key decisions:
  - What do we want to achieve by spending the funds?
  - What is the scope of activities that can / cannot be funded?
  - Who can access the fund?
  - How to define the projects?
  - How to choose between competing projects / proposals?
  - Who decides all of this? When? In how much detail?

- Regarding the **scope of activities**, should only be those:
  - that address a well-defined and proven market failure; **and**
  - that should not be funded in other ways, such as:
    - Using existing budgets
    - Increasing the MO charges
    - Voluntary funding

Proposal for governance framework (1)

Element	Idea
Timings	• Ad-hoc and/or annual process for applications • Defined process for selection/rejection of projects • Deployment of monies – annual monies spend or redistribute in timely manner
Eligibility for funding	MOSL, trading parties, or third party (with MOSL or trading party sponsorship)
Decision maker	The Panel
Process administration	MOSL in its various roles (secretariat/admin support, settlement, project/programme management, Board/management)
Criteria for project selection	In code: • To deliver benefits to business customers • To be additional • To foster general market functioning rather than conferring competitive advantage More interpretation and detail elsewhere
Funding attribution	Project costs to be allocated to 'sub-pots' prior to redistributions (e.g. OPS, MPS-retailers, MPS-wholesalers)
Process definition	Appropriate detail to be contained in a Code ancillary document subject to self-governance (i.e. Panel to evolve as required)

Proposal for governance (2)

The challenge is to derive a process that is proportionate

- aspiration to spend some money (e.g. at least part of OPS, perhaps some MPS too)
- identification of efficient projects
- flexible to many small lower value projects and/or higher value projects
- ideally manageable within Panel resources and MOSL business as usual budget
- deployment of monies to assess, evaluate, monitor and/or manage larger projects (where necessary).

➡ Opportunity to test the process at least potentially for some OPS 2019/20 monies shortly

Concerns raised about the CPM008+ redistribution approach

Concerns have been raised that the CPM008+ approach is distortionary

Retailer	Market share (MOSL fee)	% MPS charges paid	% charges returned
1	40	40	29.88
2	25	25	27.01
3	20	20	23.27
4	10	10	13.03
5	5	5	6.81

Assumptions: Same level of performance, no capping of charges

The above illustrates the effect, but “the unacceptable transfer” between large retailer(s) and the rest is a complex function of the individual retailers market share and the distribution of market shares of the rest.

But the structural issue was appreciated, although the acceptability of the transfers may warrant consideration

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CONCERNS REGARDING THE REDISTRIBUTION ELEMENT (CPM008+) OF OUR HYBRID MODEL

Economic Insight

Original CPM008 & Revised CPM008	CPM008+
Original CPM008 discounted the charges faced by players equal to their market share. Therefore it: • **Diluted incentives**, particularly for larger retailers, as noted by Ofwat; and • It **tilted the playing field in favour of larger retailers**. Similar effects under Revised CPM008.	CPM008+ removes the discount and thus the incentive dilution. • **But**, by removing the incentive dilution, it **results in larger retailers getting less** of the 'pot' than they would under other redistribution models. • This is **inevitable and intentional** – the model was designed to remove incentive dilution, which favoured larger retailers.

Nevertheless, this raises a legitimate concern about whether 'transfers' are acceptable.

When do transfers arise?
How big are they?
How big is any effect on the playing field?

 11

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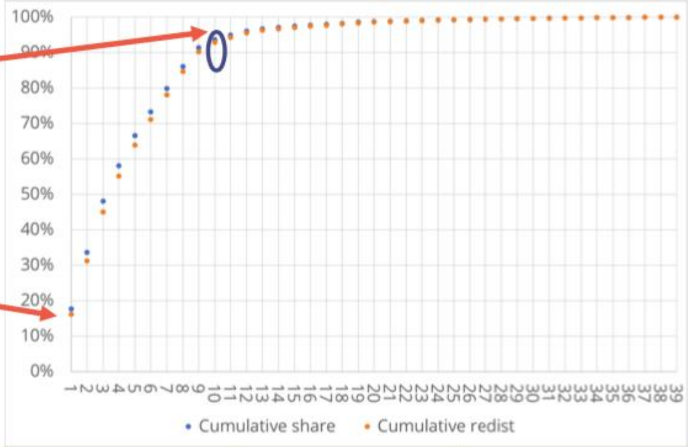
EI have analysed the effects based upon 2018/19 retailer market shares

HOW BIG IS THE TRANSFER? (CPM008+ VS MARKET SHARE MODELS) ARGUABLY, SMALL.

Economic Insight

- For the same level of performance without a cap, larger players (>5% market share) would collectively fund **91%** of the pot and would get back **90%** of it back (or £1 in, £0.99 out).
- The largest player would contribute **17.7%** of the pot and would get **16.2%** of it back (or £1 in, £0.91 out).



	Put in	Get back
Larger (9 firms)	£2,922k	£2,890k
Smaller (30 firms)	£278k	£310k
Transfer	£32k paid by 9 firms = ~£3.6k per firm £32k split by 30 firms = ~£1.1k per firm	

- On £3,200k of MPS charges → → →

EI pointed MPC towards two key questions and provided its opinion

KEY DECISIONS / QUESTIONS FOR MPC

Economic Insight

- Is *any* incentive dilution an acceptable feature of a redistribution model?
  - We think '**no**'.
    - The primary objective of charging is to incentivise performance.
    - Ofwat has rejected two models primarily on incentive dilution grounds.
- Is *any* transfer between parties an acceptable feature of a redistribution model?
  - We think '**yes**'.
    - They are small in practice.
    - They do not inevitably result in a distortion to competition.
    - Avoiding them completely would require 0% redistribution, probably to HM Treasury or similar – rather than an alternative redistribution model – and we do not think this is the best way forward.

However, MPC notes the concern that, where we might have much larger market shares than apparent in 2018/19 data, the transfers might be harder to accept.

The alternatives for redistribution include:

CPM008+	A refined CPM008+	An alternative stacked performance based approach	Original CPM008
• Resolves dilution • Transfers from large actors	• Mitigates transfers from large actors • Refinement reintroduces dilution	• May encourage higher performance • Dilution persists	• No transfers (?) • Dilution

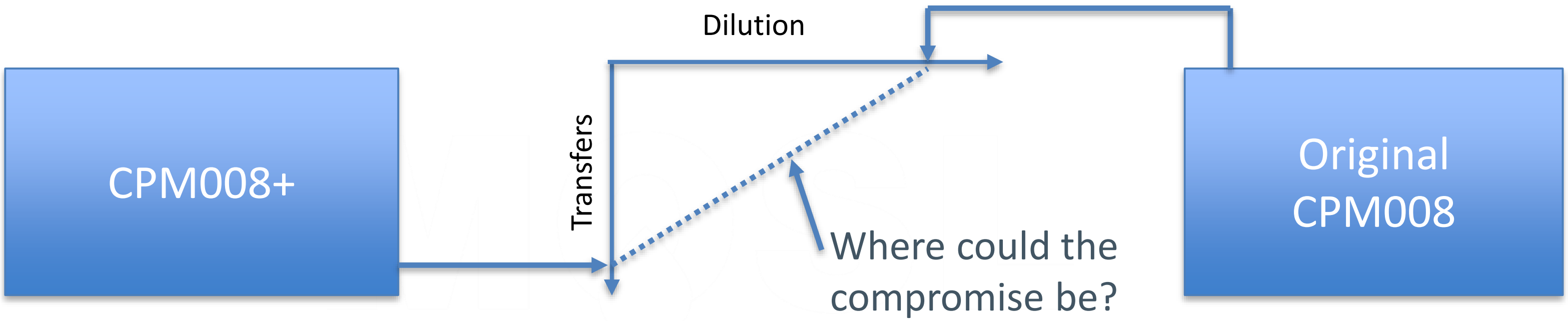
The acceptance of CPM008+ may well depend upon whether the transfers result in a distortion to the playing field which EI indicate depends on several factors:

- The size of the transfers
- The extent to which the ‘winners’ do, or could, compete with the ‘losers’
- The extent to which the transfer could alter commercial decisions (entry, exit, investment, pricing etc.)
- The extent to which there are other factors that distort the playing field in the same or different directions.

Defining the conundrum…

Compromise?

Trade-off dilution and transfer?



- No dilution
- Transfers from large actor(s)

- No transfers (?)
- Dilution defined by market share

How could we argue dilution is acceptable given it's been declined twice already?

Change proposal timeline

Step	Date	Comment
Consultation start	Monday 23 September	Subject to finalisation tomorrow
Consultation end	Monday 7 October	Earlier feedback appreciated – particularly if there are new ideas and positions
Development and sign-off of final proposal	By Wednesday 23 October	
Recommendation to Panel	Thursday 24 October	
Panel recommendation decision	Tuesday 29 October	
Final recommendation to Authority	Friday 1 November	Aspiration that decision will be made in 2019
Code release	No later than Tuesday 31 March	

Consultation content

- Default redistribution approach
- Approach to governance framework
- Implementation date

MPC would value further rationale and evidence if respondents advocate a change in the recommendations indicated in the consultation document.

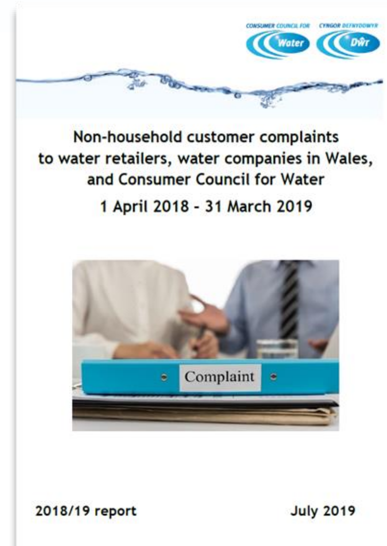
Voice of the Customer

User Forum

19 September 2019

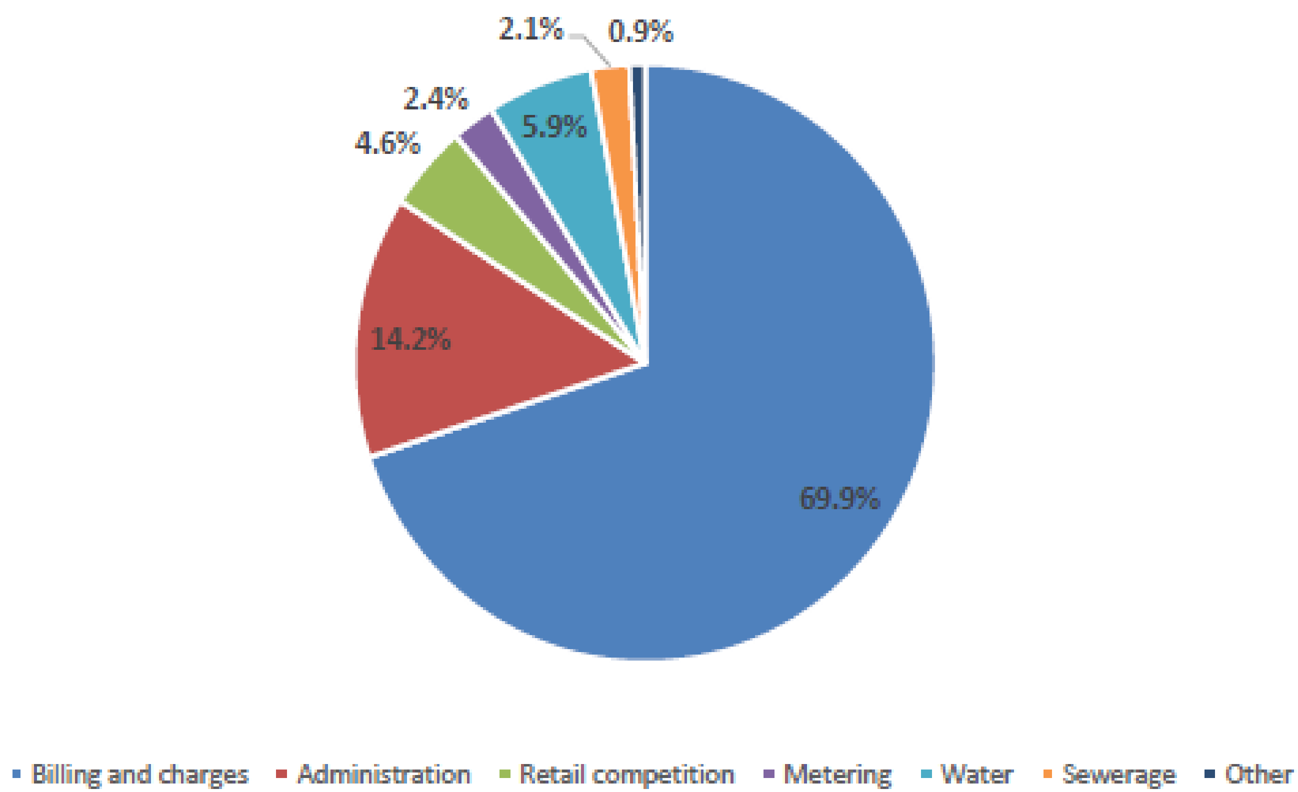
CCWater Annual NHH Complaints Report 2018-19

- c.18,000 written complaints to companies - 20% increase on the previous year
- c.4,000 written complaints to CCWater - 43% increase on the previous year
- 58 CCWater investigations
- Poorest performers - Water Plus, Clear Business Water & Everflow



CCWater Annual NHH Complaints Report 2018-19

Complaints to CCWater by category



CCWater Annual NHH Complaints Report 2018-19

Written complaints reported by retailers/companies		Retailer/company	Complaints received by CCWater	
Per 10,000 SPIDs	Increase/decrease on previous year		Per 10,000 SPIDs	Increase/decrease on previous year
97.1	70.9%	Water Plus	19.3	106.4%
78.4	41.0%	Yorkshire Water Business Services	2.5	65.3%
76.4	32.5%	Clear Business Water	22.8	105.5%
65.5	186.5%	Everflow	16.8	166.4%
55.5	-20.3%	Castle Water	17.9	-4.0%
53.5	-18.1%	Wave	12.8	60.9%
49.1	12.7%	Pennon	9.5	4.9%
27.5	-2.4%	Dŵr Cymru	1.7	54.5%
25.0	-6.0%	Business Stream	9.7	9.4%
23.5	32.2%	Water2business	3.1	25.9%
23.3	-8.8%	The Water Retail Company	0	0
23.1	2012.1%	Hafren Dyfrdwy	4.0	267.3%
19.6	8.8%	Affinity for Business	5.1	21.5%
17.2	-22.1%	SES Business Water	17.2	224.5%
7.5	N/A	First Business Water	0	0
62.3	20.4%	Average/total	13.1	43.0%

Key

(red)	Above the industry average for complaints per 10,000 connections/SPIDs and/or an increase on 2017/18.
(green)	Below the industry average for complaints per 10,000 SPIDs/connections and/or a decrease on 2017/18.

Q1 2019-20 Complaints to CCWater

CYNGOR DEFNYDDWYR Dŵr

CONSUMER COUNCIL FOR Water

FIRST QUARTER CONTACT FROM BUSINESS CUSTOMERS
1 April to 30 June 2019

CONSUMER COUNCIL FOR Water

Best performers

- Yorkshire Water Business Services
- Water2Business
- Affinity for Business

Worst performers

- Clear Business Water
- Everflow
- SES Business Water

Complaints

931 2019 - 20 Q1

769 2018 - 19 Q1

1,073 2018 - 19 Q4

Top causes of complaints under billing & charges

What business customers complained about

	Retail Competition	Billing & Charges	Metering	Water	Sewerage	Administration	Other
2019 - 20 Q1	46	672	20	50	28	110	5
2018 - 19 Q4	45	781	26	54	22	134	11
2018 - 19 Q1	29	514	13	46	23	137	7

www.ccwater.org.uk @WaterWatchdog

Business Customer Insight Research 2019

CYNGOR DEFNYDDWYR Dŵr

CONSUMER COUNCIL FOR Water

- 53% of all business customers are aware of the retail market
- 13% have engaged with the market
- 3% have switched retailer
- 6% of switchers were contacted before signing up to a new retailer
- 34% engaged with the market via a broker

Opinion Research Services

Ofwat

CONSUMER COUNCIL FOR Water

Business Customer Insight Surveys 2019

Final Report

July 2019

Business Customer Insight Research 2019

- 64% satisfaction with the water market
- 80% satisfaction with retailer
  - 61% no/few problems
- 8% dissatisfaction with retailer
  - 60% billing issues
  - 48% customer service


Opinion Research Services

Ofwat

CONSUMER COUNCIL FOR Water

Business Customer Insight Surveys 2019

Final Report

July 2019

Business Customer Insight Research 2019

CYNGOR DEFNYDDWYR Dŵr

CONSUMER COUNCIL FOR Water

- 84% of switchers & 89% renegotiators found benefits met/exceeded expectations

- 63% of switchers & 78% renegotiators found quality of retail services matched previous service

- 8% of switchers & 9% of renegotiators benefited from consolidated bills


Opinion Research Services

Ofwat

CONSUMER COUNCIL FOR Water

Business Customer Insight Surveys 2019

Final Report

July 2019

Focus for the retail market

More to be done to:

- Increase awareness of the market

- Improve the quality of market data
- Improve wholesaler and retailer interactions

Any questions?

Lucy.Byrnes@ccwater.org.uk

Christina.Blackwell@ccwater.org.uk

AOB Wrap Up & Close

Thank You!

MARKET OPERATOR SERVICES LTD