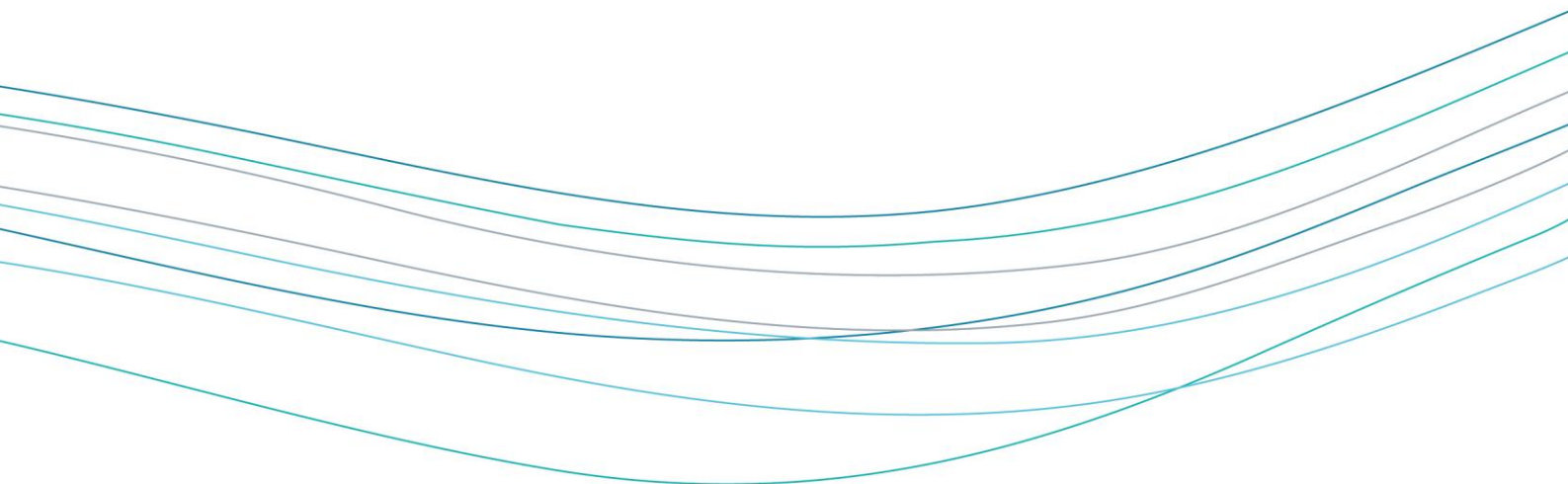


Reforming the Market Performance Framework (MPF)
– Call for Inputs on designing the future performance
framework

November 2021



1. Executive Summary

This Call for Inputs (CFI) sets out the initial market request for feedback on the review and reform of the Market Performance Framework (MPF) for the non-household (NHH) water market in England and Wales. The need for change has been driven by Ofwat, the [Market Performance Committee](#) (MPC) and [MOSL](#). The CFI seeks information not only from those trading parties who are currently subject to the current MPF, but also from all other interested stakeholders including: business customers (and their representatives); current and prospective suppliers; and third-party intermediaries (including meter reading companies).

A recurring theme in this CFI is the need to identify and drive positive customer outcomes. The difference between outputs and outcomes is referenced within the document and there is an emphasis on the need to evidence and deliver a direct or indirect customer benefit. Consistent with the market codes, reference to customer includes both current and future non-household (NHH) customers.

This is an opportunity for the NHH market to collectively assess what the current MPF achieves against current expectations and what the future expectations of the next MPF are. Views and ideas can be based on industry experience as well as on experiences from other areas. Throughout this document we stress that the development of the next MPF does not need to be (and arguably should not be) based on the existing one. Consensus across the market is that the current MPF is not delivering what the market needs. All opinions and ideas are welcomed and the wider the range of experience that such views are based on, the more innovative the next MPF can become.

The document invites views on the following questions:

Question 1: What value do you currently receive from the current MPF?

Please explain how you use the different performance tools in the existing framework and the extent to which these support better outcomes for your company and end customers.

Question 2: Do you agree that a future MPF should be developed in line with the following principles: (i) facilitate improved customer outcomes; (ii) improve trading party accountability; (iii) support competition; (iv) compatibility with the wider regulatory regime (v); and provide an enduring framework?

Please explain fully your response and identify any additional design priorities that you feel should be considered.

Question 3: What are the outcomes that you feel should be considered as the focus for a future MPF?

Please explain fully your response and/or identify any aims/objectives for a future MPF that you feel should be considered.

Question 4: Do you support the MPF Review Working Group's early views on performance tools and incentives?

Please explain your response and identify any alternative or additional considerations regarding existing (or potentially new) performance tools that you feel should be considered.

Note – these questions are repeated in the relevant sections of the document.

2. Introduction

The [Market Performance Committee](#) (MPC) has appointed a Market Performance Framework (MPF) Review Working Group to develop the next iteration of the MPF.

The MPF Review Working Group comprises a subset of trading parties, MOSL, [Ofwat](#) and [CCW](#)¹.

The MPF Review Working Group is using this CFI to solicit views and evidence from all interested stakeholders about how the MPF should be reformed to improve trading party performance and deliver improved outcomes for current and future non-household (NHH) customers. Input has been received from the User Forum and the MPF Review will also be discussed in detail at the CEO Forum.

It is aimed at Contract Managers to ensure that feedback can be collated and easily used by the MPF Review Working Group. Contract Managers are invited to circulate this CFI document within their organisation, but are asked to use the Netigate survey [link](#) in the covering email to return their responses. The CFI should take no longer than 10 minutes to read. The deadline for responses has been extended to 6pm on Monday 20 December.

This document provides an overview of the current MPF and focuses on the principles and design priorities that could underpin a future performance framework. It offers early considerations in respect of the performance tools (including measures and incentives) that comprise performance frameworks.

¹ The MPF Review is led by the MPC who have delegated the responsibility to the MPF Review Working Group

Detailed design considerations regarding the performance tools, measures and incentives will be the focus of a future consultation.

At all times, respondents are asked to consider that the future MPF does not need to be, and quite possibly should not be, based on the existing MPF.

The revised MPF will define the future performance required of wholesalers and retailers within the NHH market and will set the financial and reputational benefits and impacts of meeting or failing to meet these. Accordingly, it is essential that the concepts outlined by the MPF Review Working Group are understood and assessed by as many affected stakeholders as possible.

At the end of each section there are questions which invite feedback on the proposed way forward. Below each question is a free text field in which you may respond directly to the questions and provide input from your own experiences.

The rest of this document is structured as follows:

- ◆ Section 3 sets out background on current MPF
- ◆ Section 4 considers the case for reviewing the current MPF
- ◆ Section 5 sets out candidate principles and design priorities for a future MPF
- ◆ Section 6 explores how considering the customer journey and market outcomes can inform the design of a new MPF
- ◆ Section 7 sets out early considerations of the MPF Review Group with respect to the design of performance tools and incentives.

The proposals set out in this document will be developed further in light of feedback to this CFI. A further consultation will then be undertaken regarding the more detailed shape and candidate options for a MPF going forward. Appendix 4 contains the Plan on a Page showing where the CFI sits in the development of the case for change.

3. Background on the current Market Performance Framework

The current MPF

The current MPF for the English and Welsh NHH water retail market was established when the market opened in April 2017. It is defined in [Code Subsidiary Document \(CSD\) 0002 'Market Performance Framework'](#).

The MPF comprises a set of codified processes (performance measures and tools) which are delivered by MOSL. [The Panel](#) is responsible for overseeing the administration of the MPF via its Market Performance Committee (MPC). The MPC provides input on MOSL's operation of the tools and makes determinations on rectification action in cases of serious underperformance.

A summary of the Market Performance Standards (MPS) can be found in the "About" section of the [online MPS Reports](#). Similar information on the Operational Performance Standards (OPS) can be found on the [OPS reporting page](#). More information on the constituent elements of the current MPF is set out in Appendix 1.

Aim of the current MPF

CSD 0002 establishes the central aim of the MPF to "mitigate and manage the risk of non-compliance (and any resulting disbenefits)". This is achieved through mechanisms which govern, monitor, incentivise and enforce a set of service standards.

The CSD makes it clear that the current MPF is intended to provide confidence to trading parties and the Market Operator (MO) that:

- ◆ There is an orderly operation of the market
- ◆ Trading parties and the MO are incentivised to comply with their obligations
- ◆ The risk of non-compliance and any associated impacts are being mitigated and managed
- ◆ The risks to the central systems are being managed and that the performance of the market is being continually improved.

Evolution of the MPF

Since the market opened, a number of tactical changes have been made to the MPF, notably the Priority Changes made in April 2020, which saw the implementation of changes to key, high-volume MPS to deliver better financial incentives to improve trading party performance given that many trading parties were consistently exceeding the cap beyond which financial payments apply.

For example, the performance standard with the greatest volume of tasks (and therefore largest impact on performance overall) is MPS 18. This standard drives the requirement to take biannual meter reads. The extension of the deadline to take reads by 60 business days gave trading parties more flexibility to carry out their responsibilities. However, an increase in the overall cap for performance charges, coupled with a drop in

charges for failing this specific standard, sought to ensure more tasks fell into the zone where financial incentives would apply, so incentivising greater task completion.

Other changes of note include the introduction of financial incentives around performance to OPS in April 2019 and the establishment of a Retailer Measure of Experience (R-MeX) in October 2020.

Question 1: What value do you currently receive from the current MPF?

Please explain how you use the different performance tools in the existing framework and the extent to which these support better outcomes for your company and end customers.

4. Case for Reviewing the MPF

The MPF was designed prior to market opening. The measures that are its focus, provide a view of process steps, rather than overall outputs/outcomes. After four years of operation, there is evidence that the current MPF does not drive improved outcomes for customers or the market.

Operating the current MPF costs MOSL approximately £0.5m to £1m per annum as noted in the Finance Review section of the [Annual Market Performance Report for 2020/21](#). Going forward, it is important that any future MPF provides value for money and supports the delivery of improved outcomes for those it serves.

In 2019 the MPC commissioned an independent review of the MPF. The output from this review (conducted by Economic Insights) was a [three-year roadmap](#), which considered key principles and definitions for the evolution of the MPF. It concluded that the MPF was lacking in data, transparency, accountability and customer focus, in particular:

- ◆ The MPF is not linked to customer outcomes
- ◆ Targets are not stretching; and
- ◆ Performance lacks 'public profile'.

Further, reporting and operation of the MPF has illustrated a range of challenges with the current MPF:

- (1) Improvement in relation to the defined performance measures (MPS and OPS) does not appear to translate into better outcomes for customers.
 - ◆ 'Task' Performance has improved since market opening (and has continued to remain high/improve while performance charges were temporarily [suspended](#) at various points throughout 2019/20).

However, while the MPF shows improving performance, outcomes (e.g. Settlement on actual meter reads and meters with long-term outstanding reads) have degraded (see Appendix 2).

- ◆ CCW continues to report low levels of customer satisfaction² and significant levels of complaints³, noting the volume of billing issues and poor customer service remains of concern.
- ◆ Other observations regarding market performance or the MPF have been made in industry reports, including concerns that poor quality consumption, customer and asset data continues to be a significant market friction that is affecting retailers and the market more widely⁴.

(2) Some performance measures and charges may create perverse or insufficient incentives.

- ◆ Traditionally the financial penalties paid by trading parties have been redistributed back to trading parties, which is also likely to weaken the financial incentive.” Anecdotal feedback suggests it can sometimes be cheaper to pay the performance charge than meet the code obligation. Operational Performance Charges are much less significant in scale compared to Outcome Delivery Incentives for wholesalers under the Price Control. Ofwat’s August 2020 [Review of incumbent company support for effective markets](#) (RISE) noted that that “Relative to the size of PR19 performance commitments, financial incentives to improve MPS performance are small (about 0.05% of wholesaler revenues relating to the business market).

(3) There may be gaps in the framework tools that mean performance improvement is slow or may not be delivered. Such gaps could include:

- ◆ Good performance is not rewarded
- ◆ Reputational measures like peer comparison may not sufficiently incentivise all parties
- ◆ Measures and league tables based on detailed process steps can’t be easily understood by a non-industry audience

² “69% of customers reported being satisfied with their retail services – significantly lower than satisfaction with water (91%) and sewerage services (88%).” - CCW’s [Testing the Water’s Report](#) for FY2020/21

³ **“Written complaints made by business customers to their supplier rose by 5 per cent during 2020-21, but those escalated to CCW fell by about 17 per cent. However CCW still handled over three times more complaints than before the retail water market opened in England four years ago”** - CCW’s [annual business customer complaints report](#) for FY2020/21

⁴ Ofwat’s June 2019 [Wholesaler Performance CFI Outcomes report](#); Ofwat’s [State of the Market](#) report 2019/2020; Ofwat’s August 2020 [Review of incumbent company support for effective markets](#) (RISE); CCW’s [Testing the Water’s Report](#) for FY2020/21; Economic Insight’s [Non-Household Water Retail Market Study](#) April 2021.

- ◆ Qualitative review and insight on compliance (e.g. through the market audit) is not part of the current MPF
- ◆ ‘Next steps’ in the case of continued failure to perform are limited under the current provisions
- ◆ There may be a gap between the MPF and the regulatory regime, for example, failure to perform against a specific performance measure on a given process step may not warrant regulatory enforcement action under the relevant appointment or license.

5. Principles and Design Priorities

The current definition of the MPF should not constrain its development.

While previous changes to the MPF have been based on alterations to the existing mechanism, the new MPF should be viewed as an entirely new creation. The MPF Review working group strongly believes that a future MPF should move beyond compliance. Rather, it is about:

- ◆ Aligning the incentives of trading parties (and their shareholders) with those of NHH customers - to ensure the market delivers outcomes that benefit current and future customers
- ◆ Effectively incentivising and rewarding good performance and ensuring there are appropriate mechanisms to detect and deter issues where they arise
- ◆ Improving the legitimacy of the NHH water retail market, including by providing comfort to stakeholders that risks are being proactively addressed.

Learnings may be carried forward from the operation of the original MPF, but this CFI asks market participants for contributions around new concepts, tools, levers and practices which they may have employed or been subject to in the past as well as new ideas that could be applied in the future.

Code Principles

Any future MPF should be designed and operated according to the core principles of the market codes in a way that better facilitates the delivery of these principles. The primary principle seeks to ensure positive

outcomes for end-customers. Supporting principles focus on other matters including efficiency, innovation, competition and resilience⁵.

The current MPF focuses on the detailed operational aspects of the market and there is no obvious link between the current standards and improved customer outcomes. Moving away from this towards an approach of focusing on improved (current and future) customer outcomes extends the scope of the MPF away from a focus on detailed technical aspects of market operation. Alignment with the supporting principles should also be considered where this could further customer interests.

The market code principles are set out in the Wholesaler Retail Code and the Market Arrangements Code and summarised for reference in [Appendix 3](#).

Design Priorities

Initial considerations were made by the MPF Review Working Group regarding the design priorities for a future MPF. It is suggested that a future MPF should facilitate improved customer outcomes, improve trading party accountability, support competition, be compatible with the wider regulatory regime, provide clarity to the market about how performance will be assessed on an enduring basis and offer value for money. Identified priorities are:

(1) Facilitate improved customer outcomes.

Consistent with code principles and the recommendations in the MPF Roadmap, the MPF Review Working Group proposes that a future MPF should focus on facilitating delivery of improved outcomes for current and future NHH customers. It is expected that any performance standards to be incorporated into a future MPF would primarily demonstrate a clear line of sight between the performance standard and an improved NHH customer outcome ('direct customer benefit'). They may also lead to an improvement in the operation of the business retail market in a way that will indirectly benefit current and/or future NHH customers ('indirect customer benefit').

Although both types of performance standards are valid, a future MPF should give greater focus to those that directly benefit customers.

(2) Improve trading party accountability.

⁵ The principles align with the Resilience Objective defined in the Water Industry Act 1991, which promotes "Trading Party and Non-Household Customer participation in measures to manage water resources in sustainable ways, to maximise efficiency in the use of water and reduce demand for water so as to reduce pressure on water resources."

The MPF Review Working Group proposes that a future MPF should improve trading party accountability for delivering improved outcomes for current and future NHH customers. Performance tools will apply to the trading party most accountable for delivering the relevant service. It is acknowledged that trading party performance will always be influenced by external factors (including other trading parties) to some extent, so the objective is to apply standards to those organisations primarily responsible for delivery⁶.

(3) Support competition.

The MPF Review Working Group proposes that a future MPF needs to reflect the competitive environment and wherever possible, support competition. A reformed MPF, which improves customer outcomes, may lead to greater engagement, thereby supporting competition. Wholesalers are regional monopolies so customers cannot vote with their feet and procure wholesale services from anyone else other than their incumbent wholesaler. Regulation is therefore used to mimic the effect of competition. On the other hand, since the introduction of competition in April 2017, NHH customers in England can choose their Retailer⁷. The MPF should recognise and seek to support these differences in market structure.

(4) Consistency and compatibility with the wider regulatory regime.

Performance tools in the MPF should be able to be deployed in a way that is compatible with and complements but does not overlap with the regulatory regime⁸. It should be clear where (or if) underperformance or non-compliance under the MPF may lead to action under the MPF or wider regulatory action outside the MPF. The future MPF will need to be designed in a way that is, where appropriate, consistent with Ofwat's review of the Retail Exit Code (REC) protections and ongoing price reviews.

(5) Provide an enduring framework.

The MPF Review Working Group proposes that a revised MPF should be able to flex to focus on the risks to the delivery of priority outcomes as the profile of risk changes and the market evolves. It should be “future proofed” by providing a clear and consistent framework to support its on-going evolution. This is expected to provide clarity to all market participants, in particular trading parties, about how overall performance will be assessed on an enduring basis. To be clear, this does not preclude the introduction or amendment of performance tools (including revised performance measures) over time, but it will ensure a clear and

⁶ This would be consistent with setting standards for retailers relating to the taking of meter reads and setting standards for wholesalers relating to investment in and maintenance of meters.

⁷ 58% of business customers were aware of their ability to switch retailer in 2019/20 and with estimated levels of engagement at 8%.

⁸ For example, the effects of Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs) under the price control or enforcement action under licence provisions.

consistent framework for the design and introduction of any future changes in line with the agreed framework.

Costs must not outweigh the benefits

The MPF Review Group notes that a range of stakeholders may derive value from a future MPF. This includes current and future customers, the regulator, the Market Operator as well as wholesalers and retailers. The value that an MPF delivers may be different for different parties. Benefits may be qualitative or quantitative and are expected to (directly or indirectly) facilitate delivery of improved outcomes. For example, this could include:

- ◆ Holding peers to account for poor performance and rewarding strong performance
- ◆ Ensuring that trading parties settle accurately and do not under- or over-pay
- ◆ Ensuring that customers' meters are functional, are maintained and can be read so they can be billed accurately
- ◆ Improving the quality and availability of customer, asset, and consumption data
- ◆ Providing insight on performance to support customer switching
- ◆ Ensuring that when customers switch, incoming retailers do not incur additional cost in having to address issues associated with previous poor maintenance of data; and
- ◆ Enhancing the legitimacy of the market more generally.

Any future MPF should take account of stakeholder's needs and ensure the cost of delivering the MPF is appropriate to the aggregate value it provides across stakeholders.

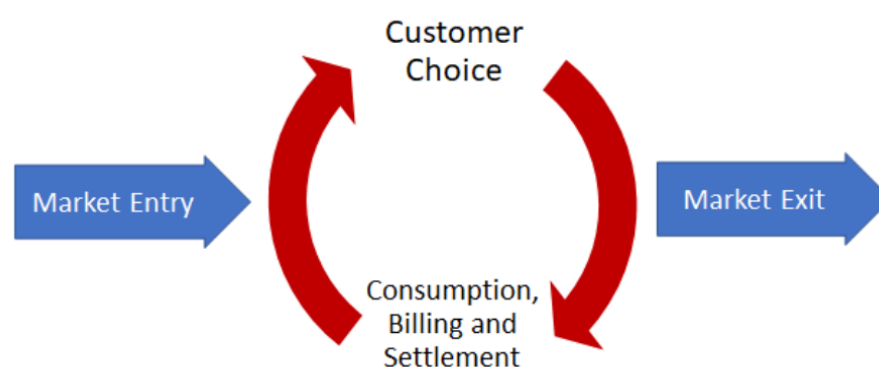
Question 2: Do you agree that a future MPF should be developed in line with the following principles: (i) facilitate improved customer outcomes; (ii) improve trading party accountability; (iii) support competition; (iv) compatibility with the wider regulatory regime (v); and provide an enduring framework?

Please explain fully your response and identify any additional design priorities that you feel should be considered.

6. Considering outcomes and the customer journey

The MPF Review Working Group proposes that each step of the customer journey is explored to identify the relevant and desired customer outcomes. Consideration can then be given to how (and if) an MPF performance tool (or blend of tools) could provide value through that customer journey. Figure 1 (below) illustrates this concept through the definition of three key stages in the customer journey.

Figure 1: The customer journey



Each stage in the journey can be described in terms of the customer's experience:

(1) Market Entry

- ◆ New customers occupy new or existing SPIDs, accurate and complete customer, consumption, premises and asset data are entered into the market at the earliest opportunity so the customer can access services.

(2) Consumption, billing and choice

- ◆ All customers receive timely and accurate bills which are supported by wholesaler provision of services, for example metered premises have a functioning, located meter, correctly identified within the market, which can be accessed. Good quality and accessible consumption data is available. Customers can move between retailers without friction.

(3) Market exit

- ◆ Customers exit the market in a controlled process ensuring that they receive an accurate final bill, and their exit is recorded on CMOS.

An MPF should look to provide comfort in relation to the delivery of these customer outcomes and mitigate potential risks to realising these outcomes. These customer outcomes can then be used to identify outputs – which have a clear line of sight to those outcomes - but which trading parties have more control over so as to identify the focus of performance standards and other performance tools in a revised MPF.

Question 3: What are the outcomes that you feel should be considered as the focus for a future MPF?

Please explain fully your response and/or identify any aims/objectives for a future MPF that you feel should be considered.

7. Designing performance tools and incentives

The detailed shape of any future framework and the specific performance tools themselves will be informed by this CFI and further work undertaken by the MPF Review Working Group and MOSL. However, the working group has identified some early candidate considerations in relation to the potential framework.

Performance Measures

The MPF Review Working Group is attracted to the concept of a smaller number of more focused performance standards, compared to the current MPF. Potentially, these could be supplemented by a number of other (reputational) measures. Such measures could provide a holistic review of trading party and market performance whilst incentivising wholesalers and retailers to focus on the issues of greatest importance to NHH customers.

Time-based standards that report on whether expected or required tasks have completed in a given time feature heavily in the current MPF. The MPF Review Working Group considers that quality-based standards may need to feature more prominently in a future MPF that is more aligned to customer outcomes.

There has been some scepticism about self-reported performance measures, noting the potential for errors in submissions and the potential for mis-reporting. The MPF Review Working Group recognises that objectivity and data quality is crucial to an MPF that functions effectively and delivers improved outcomes for customers

and so self-reported performance measures should be avoided where possible. However, the MPF Review Working Group also recognises that certain aspects of performance may require self-reporting and so such measures should not be ruled out completely at this stage. There may be opportunities to complement such measures with audit provisions to provide for an independent view.

The MPF Review Working Group considers that both relative performance (i.e. comparison between peers) and performance against absolute standards may have a role to play in a future MPF.

Audit Provisions

Performance measures can provide a routine way to monitor aspects of market outcomes. However, there may be value in utilising more qualitative approaches under a refined MPF to better identify and understand potential issues.

Different types of audit may provide independent insight into the working practices, processes, systems and controls that trading parties have in place to ensure compliance and delivery of outcomes. The Market Audit provides an opportunity to co-ordinate such work as part of an MPF in a blended way. Other types of audit (for example, reviews of meter networks or meter installations) might provide insight on the extent to which data in the market systems is a true and fair view of reality. Such audits come with a cost, however, and the MPF Review Group considers that any use of audit as part of the framework should be considered carefully.

Incentives

There are a range of different types of incentives that could apply to performance standards under a revised MPF. For example: i) reputational; ii) financial (penalty and reward); iii) financial (penalty only); and iv) financial (reward only).

In general, the MPF Review Working Group supports a reformed MPF making use of the full range of incentive types, with the appropriate type of incentive to be identified on a standard-by-standard basis. Where financial incentives apply, the Working Group feels these should be material enough to offer a substantive reward/incentive.

The MPF Review Working Group notes Ofwat has set a clear expectation that both [Business Customer Measure of Experience](#) (B-MeX) and [Retailer Measure of Experience](#) (R-MeX) should evolve into financial incentives⁹.

Caps for Financial Incentives

The MPF Review Working Group considers that - in principle - a well-designed MPF should not require a cap on performance payments as this can dampen incentives on trading parties to improve performance. The MPF Review Working Group would prefer that incentives are calibrated in such a way that maintains strong incentives on trading parties to improve performance, whilst avoiding risks that incentive payments are so significant that they singlehandedly cause a company to cease trading.

Redistribution of Performance Charges

The MPF Review Working Group considers that redistribution of performance charges weakens incentives on trading parties to improve performance.

The MPF Review Working Group considers that, as part of reforming the MPF, consideration should be given to how to treat any monies accumulated from the payment of charges associated with underperformance.

The Working Group notes that, ultimately, end customers lose out from poor trading party performance. The MPF Review Working Group considers that, if performance charges are not returned to customers then these monies should be spent in a way that benefits customers. The following options have been identified, noting that MPF charges will decrease as trading party performance improves:

- ◆ Compensation to affected party
- ◆ Used to fund rewards for outperformance
- ◆ Used to fund improved water efficiency
- ◆ Innovation fund (on a 'use it or lose it basis', with remaining funds given to charity)
- ◆ Charity donation
- ◆ Used to help plug gaps in customer protection (e.g. a pot to reimburse customer credit balances in the event of a Retailer failure).

⁹ Referenced in [RISE](#) para 3.5

Peer Comparison

The MPF Review Working Group considers that the reputational incentive effect of peer comparison is strongest when customers can see and easily interpret such reporting. Consequently, any peer comparison provisions should focus on measures and reporting which can be readily understood by the non-industry reader. Focusing on market outcomes supports this approach.

Quantitative peer comparison (based on appropriate performance standards) should continue. B-Mex and R-Mex can provide good qualitative peer comparison to complement quantitative standards.

The rectification mechanisms which are part of the MPFs suite of preventative measures (see below), could also be made more transparent. (The initial stages are not public and the escalation of an Initial Performance Rectification Plan (IPRP) to a full public Performance Rectification Plan (PRP), is not framed in a way that provides the customer with reassurance that their quality of service will improve).

Performance rectification

The MPF Review Working Group agrees that a rectification process is needed to support reformed MPF standards. Such a process should also, wherever possible be consistent with the rectification process for addressing issues arising from the Market Audit.

The rectification provisions should track action taken by poorly performing companies and incentivise such companies to improve their performance before it reaches a stage that may require some kind of enforcement action by Ofwat. The MPF Review Working Group is of the view that the current performance rectification process needs to be improved to focus on more holistic measures of performance and to identify those trading parties whose poor performance is having the greatest impact on customers and the market.

The rectification framework should promote timely intervention and rectification action should be more swiftly applied, with very clear guidance documentation detailing the process so it is understood by all trading parties.

There appears to be a gap between the current rectification mechanism and the regulatory regime. The next steps should provide for a level of escalation which goes beyond the current limits of IPRPs and PRPs and could allow for the initiation of any of the preventive or corrective measures defined within the new MPC in the event that a trading party fails to take timely and effective rectification action in respect of material underperformance and fails to support appropriate market outcomes.

Question 4: Do you support the MPF Review Working Group’s early views on performance tools and incentives?

Please explain your response and identify any alternative or additional considerations regarding existing (or potentially new) performance tools that you feel should be considered.

8. Conclusion

This CFI represents the start of the most significant change to impact the MPF since the market opened. We have the opportunity to redesign it with the benefit of hindsight and with four years of market operation and performance data to refer to. Trading parties are strongly encouraged to engage in the development of the new MPF and to support the MPF Review Working Group with views on the direction taken as expressed in the document. Input from market participants and stakeholders will inform the next steps with potential for a further consultation in Q4 FY 2021/22, to support the development for the case for change. Your participation in this is very much appreciated.

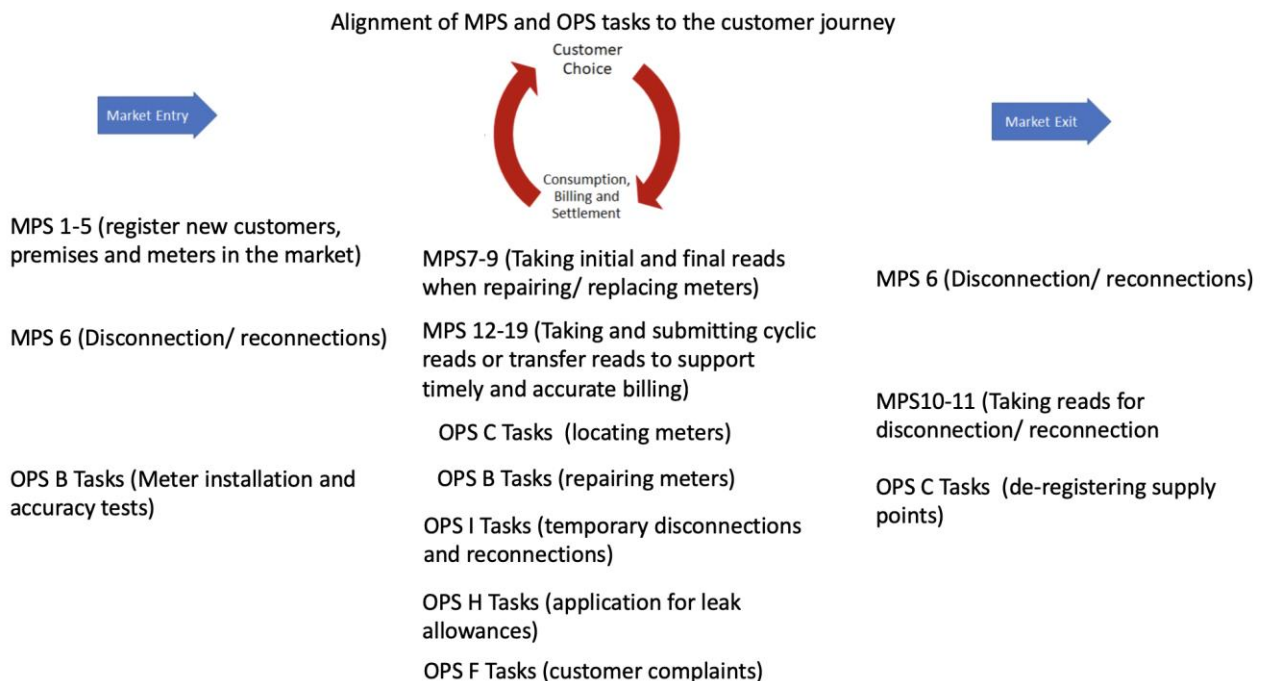
APPENDIX 1: Overview of the Current Market Performance Framework

The current MPF comprises seven performance tools:

Performance Monitoring

- Each month, CMOS data is used to calculate **Market Performance Standards (MPS)**. Some of these standards measure retailer performance. Some measure wholesaler performance. In addition, **Operational Performance Standards (OPS)** also measure wholesaler performance. These are currently self-reported but, in future, will be able to be calculated from data held in the [Bilateral Hub](#). Each standard looks at whether a particular task was completed in the required timescale. For example, ‘MPS 18’ measures whether a meter was read within 200 days of its last reading. We publish MPS and OPS data in dynamic dashboards on the [MOSL website](#). A full list of the MPS and OPS measures is set out in CSD002 ‘Market Performance Framework’. An illustrative example of the alignment of the standards to the customer journey is shown below in figure 2.

Figure 2:



- ◆ The framework also provides for ‘**Additional Performance Indicators**’ (or ‘APIs’). These aren’t defined, but can be established by the Market Operator as needed to monitor emerging risks and issues not covered by MPS and OPS measures. MOSL has developed APIs to monitor site location data and vacant sites as well as settlement and estimation in the [2021/22 Market Performance Operating Plan](#) (MPOP).

Peer Comparison

- ◆ Peer comparison reports are [public league tables](#). They provide a reputational incentive to improve. League tables are published every six months, showing performance against peers aggregated across performance standards.

R-Mex Survey

- ◆ The ‘Retailer Measure of Experience’ survey invites feedback from retailers on the performance of wholesalers. It’s another form of peer comparison on the quality of service that wholesalers provide. [R-Mex survey results](#) are published every six months¹⁰.

Performance Charges

- ◆ In addition to reputational incentives, underperformance against MPS and OPS measures carries a charge. These Performance Charges are paid to the Market Operator each month by wholesalers and retailers. A cap (see section 7) limits the total amount payable. After the end of each financial year, the Market Operator re-distributes charges collected from each party back to other trading parties based on their size.
- ◆ In FY 2020/21 charges were largely waived due to Covid. In 2019/20 the Market Operator collected and redistributed just over £4m in performance charges. £2.8m (~70%) of these charges were collected from retailers.
- ◆ From this year (2021/22), the Panel can reserve a proportion of performance charges for improvement projects under the [Market Improvement Fund](#).

Rectification Plans

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- ¹⁰ Similar to R-MeX, the ‘Business Customer Measure of Experience’ (B-MeX) will invite feedback from customers on the performance of their wholesalers. A Working Group has been established by the MPC to define a deliver a pilot survey for B-MeX by April 2022.

- ◆ The Market Operator and the Market Performance Committee (MPC) can ask underperforming parties to set out a route-map with milestones for the steps they'll take to improve in rectification plans. The Market Operator may request and monitor progress against an Initial Performance Rectification Plan (an IPRP). If performance doesn't improve then the MPC can escalate this to a Performance Rectification Plan (a PRP). Senior leadership from that party may be asked to attend the MPC to explain their plans and the MPC will seek senior level commitment to improvement. To date, only one trading party has been escalated to a PRP and this resulted in improved performance.

Guidance

- ◆ The MPF recognises that the Market Operator can support trading parties by producing guidance. MOSL publishes guidance on its website to help trading parties improve and prevent underperformance in future.

Market Operator Compliance Reporting

- ◆ The Market Operator is required to report to the Panel on its own compliance with the codes. MOSL currently does this through its reporting to the Panel's audit committee.

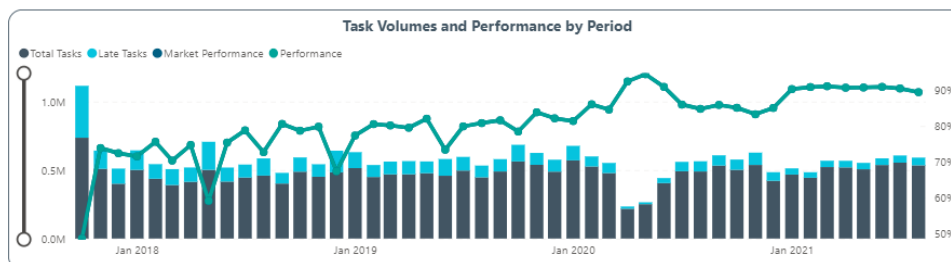
APPENDIX 2: Summary of Performance vs Views on Outcomes

Improvement in relation to the defined performance measures (MPS and OPS) does not appear to necessarily translate into to better outcomes for customers.

For example, ‘Task’ Performance has improved since market opening, as measured by the MPF, and has continued to remain high/improve while performance charges were suspended through 2019/20. However, while the MPF shows improving performance, outcomes relating to timely and accurate customer bills (e.g. as reflected by Settlement on actual reads and meters with long-term outstanding reads) appear to have degraded.

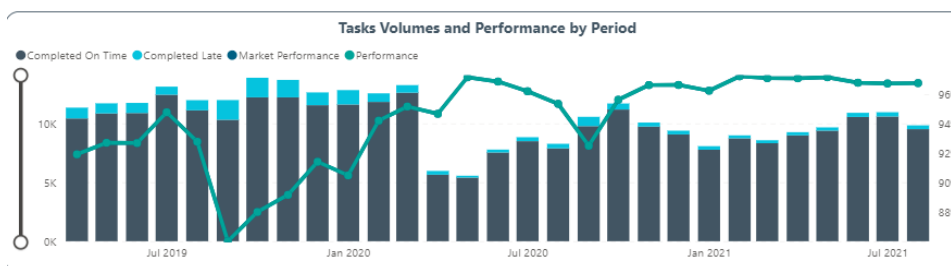
Over the last 18 months trading party performance against the defined MPS and OPS standards has climbed from pre COVID levels and stabilised at a relatively high percentage rate. Progress against standards can be seen using MOSL’s [MPS](#) and [OPS](#) interactive charts, represented below at figures 3 & 4.

Figure 3: Month on month performance against MPS



N.B the Apr 20 – Jun 20 performance was artificially inflated by the introduction of Priority Changes

Figure 4: Month on month performance against OPS



These are the primary metrics for the current MPF and are available in the public domain.

However, this does not appear to be driving improvements in outcomes. For example, areas such as accurate reconciliation of settlement (linked to customer billing) resolution of customer occupancy and the provision of core data on the customer and their premises indicate:

- ◆ Just over 182k meters in the NHH market (14.09% of all meters) have not been read for 12 months (represented as Long Unread Meters (LUMs) in figure 5)
- ◆ A further 39k (3.33%) have not been read since market opening, represented as Legacy Long Unread Meters (LLUMs) taken from the Metering Dashboard [on the Portal](#) in figure 3
- ◆ 16.3% of meters have an issue with meter location GIS coordinates
- ◆ RF settlement run calculations is supported by fewer than 70% actual reads, represented as the top line in the image from the settlement dashboard at figure 6.

Figure 5: Month on month activity to manage Long Unread and Legacy Long Unread Meters (overall rate of 17.11%)

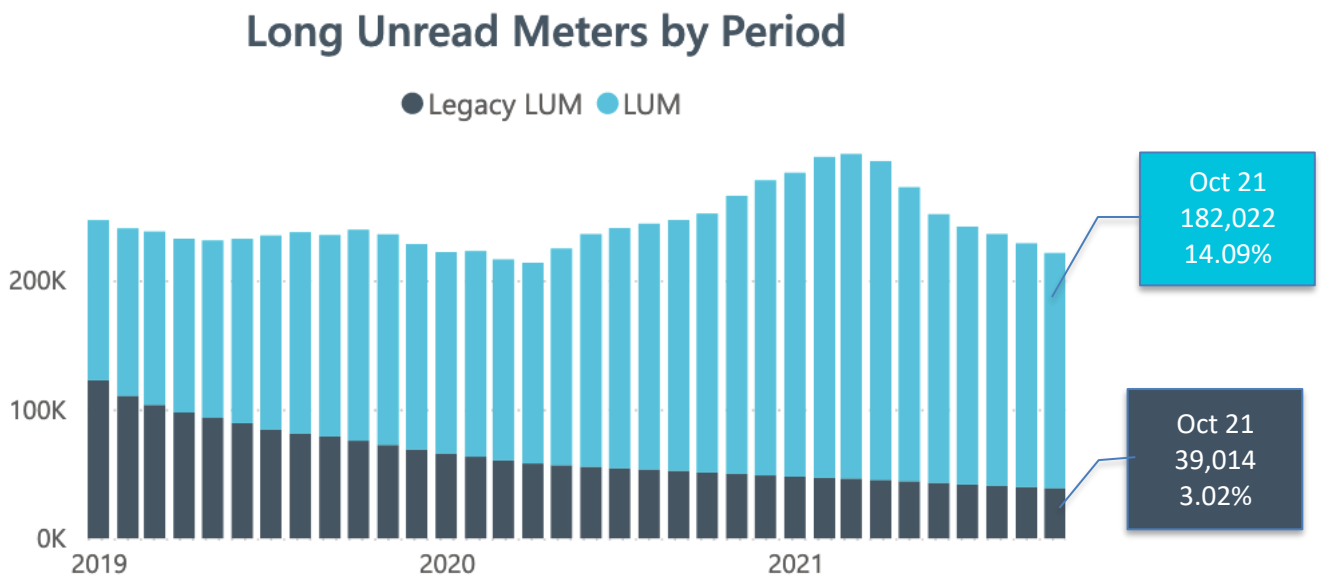
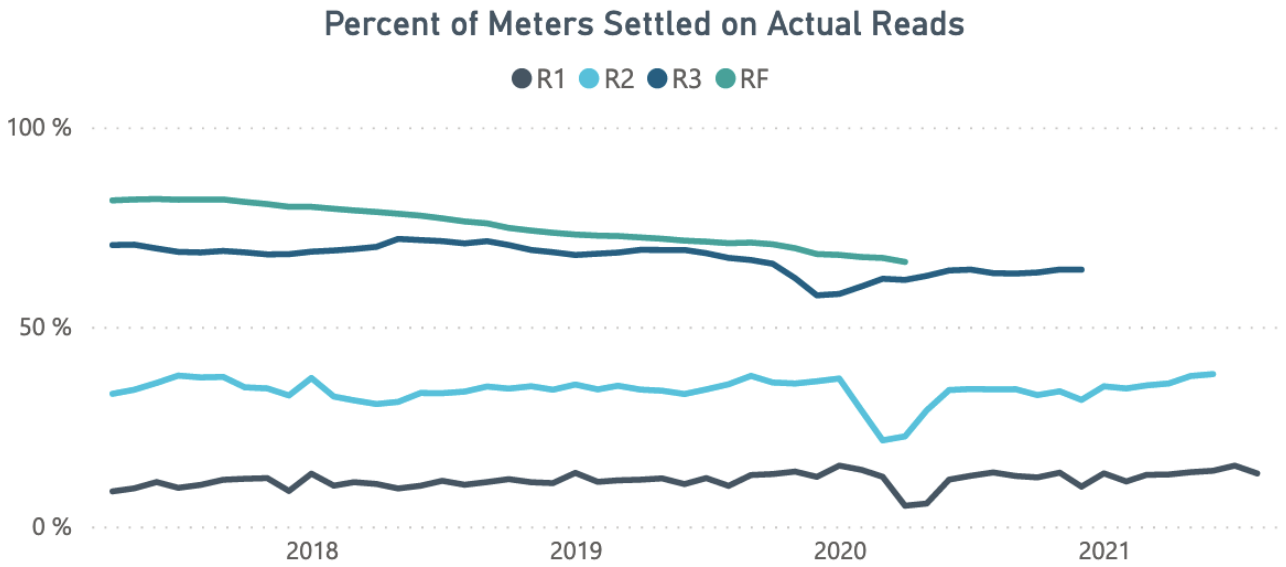


Figure 6: Month on month levels of actual reads supporting settlement



APPENDIX 3: Market Codes Principles

The core principles underpin the delivery objectives of the market provisions under the Wholesale Retail Code (WRC) and the Market Arrangements Code (MAC). Activities and provisions of the market must seek to further the primary principle to protect and promote the interests of end customers. The supporting principles should also be better facilitated but there should be no detriment to the primary principle. WRC and MAC supporting principles cannot – individually or collectively – override the primary principle to further the interests of current and future customers. They are examples of ways in which the primary principle may be furthered. The principles are set out in these codes and are summarized below for reference.

Primary Principle

The Market Codes shall be maintained, operated and developed in a manner that best seeks to protect and promote the interests of, and participation by, existing and future Non-Household Customers.

Supporting Principles

Continued development and sustainment of an effective market

The Market Codes shall, wherever appropriate, promote effective competition and the removal of, and shall not introduce unnecessary, barriers to:

- ◆ Efficient market entry, expansion and exit; or
- ◆ Innovation that benefits Non-Household Customers and the environment, including innovative business modes; or
- ◆ Development of competitive markets within the water sector in England and Wales.

Seamless Non-Household customer experience

The Market Codes shall be maintained, operated and developed in a manner that seeks to deliver a seamless experience for the benefit of Non-Household Customers in relation to the areas of wholesalers and as between Areas in England and Wales.

Resilience

The Market Codes shall be consistent with the resilience objective, including by promoting trading party and Non-Household Customer participation in measures to:

- ◆ manage water resources in sustainable ways, to maximise efficiency in the use of water and reduce demand for water so as to reduce pressure on water resources; and
- ◆ improve the environmental sustainability of the Sewerage System.

Non-Discrimination

The Market Codes shall not unduly discriminate, or create undue discrimination, between any existing or prospective parties or group of such parties

Transparency and clarity

The Market Codes shall be clear, open and transparent, including the activities of the Panel and the Market Operator, and be complete, concise, clearly expressed, well-structured, unambiguous and readily accessible to both existing and prospective trading parties.

Proportionality

The Market Codes shall be proportionate to the size of the competitive market in England and Wales. They shall allow for the creating of provisions to promote proportionate change which delivers the greatest value for existing and future Non-Household Customers.

Efficiency

The Market Codes shall ensure the efficient, economic and effective administration, governance and operation of the Competitive Market so far as impacted by them and shall promote the efficient administration of the market terms by the Market Operator.

Market Led (MAC Only)

The Market Arrangements Code shall enable and promote market participants to drive innovation and change that will create value for existing and future Non-Household Customers.

Simple, cost effective and secure (WRC Only)

The Central Systems and processes established by or under the Wholesale Retail Code should be as straightforward as possible (whilst being capable of development over time) and should contain appropriate data integrity and security control

APPENDIX 4: Plan on a page

