

MOSL CEO Forum – 12 November 2021

Responses to questions

Q: A focus on innovation is needed, however, our market is still blighted with basic issues regarding data, meter reading and margin. Are we in danger of prioritising new focuses and deviating from fixing what customers need - timely, accurate bills?

MOSL highlighted that ultimately, the same factors underpin the ability to get the basics right and unlock innovation. The vast majority of customer complaints relate to billing. Timely and accurate meter reads are critical to resolving this and improving both customer service and water efficiency. Getting the basics right is also an enabler to unlocking more value in the market. Our Strategic Metering Review and Data Insight programmes remain a focus for us in our next business plan with both focused on tackling the long-standing market frictions, unlocking value and improving insight.

CCW highlighted that getting the basics right acts as an enabler for doing other things. Ofwat highlighted Market Performance Framework (MPF) reform has a role to play and that radical reform could be needed as they're not sure the current framework is fit for purpose. Otherwise data quality wouldn't be such an issue or we would see more adequate wholesaler performance with wholesalers having more skin in the game. Defra agreed that having the correct data is key to delivering the objectives of the market.

Q: What is Ofwat's response to MOSL's suggestion in the pre-reading that there is a fairly urgent (pre-REC review) need for adjustments to wholesale charging structures to create headroom for retailers?

Ofwat highlighted they would not support the proposal to create headroom for retailers as it could prejudice the outcome of the Retail Exit Code (REC) review. The REC review is a process Ofwat are about to commence, and it is important for the regulator to look at the evidence on efficient retail costs to serve. Ofwat will also shortly be proposing some temporary uplifts to reflect the levels of bad debt in the market from April 2022. The timetable for the REC review is for any adjustments to take effect no earlier than April 2023.

Q: Agree that non-household (NHH) customers were lower profile at PR19, who owns the relationship with NHH customer was a barrier. Who should we engage with retailers, customers, both, whose view prevails etc. Any views on a remedy to this issue?

From a MOSL perspective we think there is a need to be very clear on where the ownership lies, a wholesaler is 100% accountable for the physical water and infrastructure for the water to reach a NHH customer. There have been some concerns around competition law which has meant the right conversations haven't always happened in the past. While we don't have the whole answer, we are working to coordinate market input to PR24 to make sure those big issues are being tackled across the board.

Q: In the strategy discussion so far there is nothing really on market promotion, as awareness is clearly another barrier to market success, where do you see the lack of market promotion largely arising from?

MOSL: Firstly we need to concentrate on addressing the current market frictions including data quality before thinking about promoting the market. We need to unlock better value for customers in the service and bills they receive. It is true that many customers currently have little choice to switch retailers – which is important. New entrants perceive the market as “just too difficult” and that the creation of value-added services is inhibited by these factors. We need to make sure the market operates effectively to allow it to evolve.

CCW would like to see the market getting the basics right and then starting to thrive and offering more services. Then CCW would like to put more effort into promoting the market. You don’t want to encourage too hard if customers can’t get quotes as you’d be encouraging customers to get annoyed.

Q: Would opening the domestic market now accelerate innovation and market efficiency targets?

MOSL believe it would not until we sort out the existing market frictions. Important to acknowledge out of the 1.2 million NHH customers in the market, one million have a very similar usage profile to domestic customers. 500,000 of them use less than the average domestic customer. Until we have a market that works for those customers, all we would be doing would be putting more customers in that situation. We do not believe that means we shouldn’t look to open up the domestic market at some point in the future but only if we can clearly define the value to customers and the environment.

Defra highlighted that solving the challenges in the NHH market is currently more important than opening up to other markets so that is what we should be focusing on, and are focusing on. CCW highlighted it isn’t something you would look at based on current evidence.

Q: We have heard a lot about valuing water. What do you think the government could do to signal to NHH / business customers that water needs to be valued and used wisely?

Defra highlighted the work they have done around water demand reduction. New policies Government are planning to introduce were announced in July this year. This includes for example mandatory water labelling of water using products. Defra are working with BEIS on a joint energy/water label and will hold a consultation at some point next year. Defra want to implement the policy as quickly as possible and are talking to manufacturers of products at the same time. There were other policies announced in July to drive demand reduction with a reference to the work being done in the NHH sector.

Q: Mike Keil from CCW talked about customers not shouldering the majority of the excess bad debt costs - how do you see this working in the context of a competitive market where supply chain and cost increases are naturally reflected in charges?

CCW highlighted it isn't a fully competitive market with large elements still regulated which opened up the question of how you could distribute exceptional bad debt costs in a way that is fair. CCW are saying customers should be not shouldering an unfair burden.

Ofwat said 100% of costs passed through to customers only happens in a perfectly competitive market. In reality some of those costs are competed away by downstream suppliers which is what we're trying to achieve.

Q: In a competitive market, collaboration to deliver for customers cannot be left to retailer 'collaboration'. When is a retailer seen to be failing customers? Has penalty/reward been considered to drive behaviour and real competition?

MOSL: The Market Performance Framework (MPF) was established when the market opened to incentivise a minimum level of performance. After four years of operation there is evidence the current MPF does not always lead to improved outcomes for customers. It is not clear, for example, that all customers can look forward to a bill based on actual meter reads. We believe that timely and accurate meter reading is a key component in delivering customer value and choice. We're taking the opportunity to step back as part of the MPF review to design a future framework that incentivises the behaviours that drives the outcomes customers want. We anticipate a wide range of incentive and reward mechanisms will be considered in the review.

An important aspect of these considerations is to provide incentives that are aligned to good customer and environmental outcomes. Ofwat highlighted there are elements of the market where retailers will be competing and we want to strike a balance so we're not dampening incentives to compete. This could be important for the water efficiency debate where there are some things as a market where we can work together as a market to improve things. But there is also a need to sharpen incentives for retailers to innovate and compete.

Q: With the benefit of hindsight with the market open for four years where do you see the structural issues being that prevent opportunities for this market. Where is the right place to start?

Ofwat suggested access to data and that they've had some third-party intermediaries (TPIs) saying they'd like access to market data but currently you need a license. Ofwat feel there is a question around whether that was right at market set up. On MPF reform, Ofwat said in hindsight we would have had a different set of incentive structures having seen how successful powerful incentives have been in the price controls.

MOSL highlighted there are examples where there is a disconnect between the responsibilities for maintaining data and those that receive value from its accuracy. For example, we have the situation where meter location is a wholesaler owned field but if a retailer can't read a meter because the location data in the system is wrong the retailer is penalized under the MPF. We haven't yet got the incentives in the right place.

Another structural issue is around water efficiency. Wholesalers will need customers to be using less water otherwise some will run out of water in the future. However, accountability to deliver water efficiency sits with retailers who make money on the amount of water they sell. Some retailers are making great water efficiency offerings to customers but they are few and far between. Where they are doing it they are often working with tariff structures where the more water is used, the cheaper it becomes.

CCW felt you need an agile market structure that can change. There is also a need to think about culture, sometimes wholesaler-retailer relationships are affected by misunderstandings around competition law.

Q: With the increasing urgency around environmental issues and the need to stimulate better water efficiency in the NHH market, how big a problem is the current delivery shortfall with metering and quality timely data to customer?

MOSL: When we talk about metering, we are really just talking about getting timely, accurate consumption data and therefore meter reads. Our view of NHH water consumption and the ability for retailers to provide customers with accurate, timely bills AND a clear view of their water usage (i.e. choice) depends on both the quality and the frequency of meter read data coming into the central system. Good quality and timely data can be a crucial enabler to water efficiency, but it must also be supported by a reliable view of business customers.

We are identifying solutions to overcome the main challenges identified through our Strategic Metering Review. The current market does not incentivise widescale water efficiency offerings to customers – we are looking to address this through the design of the future performance framework as part of the MPF review. This is further supported by the proposed central data cleanse and enrichment service to improve the quality of premises and customer data in the market.

Q: Whilst fully supportive of the bilateral programme, we've seen delivery costs increase exponentially. This doesn't feel like driving down costs for trading parties?

MOSL: Since the launch of the bilateral transactions hub in September, we're already seeing customer improvement, also real value on data between wholesalers and retailers which result in further benefit to customers. We have still managed to deliver the programme within the overall MOSL budget. The value has been higher as well as costs. It would have been wrong to just digitise processes without investing in known improvements.

Q: Bilaterals are only the process of passing information between retailers and wholesalers. At both ends still exist process, policies and people. What are you planning to do to drive improvements outside of the passing of information?

MOSL can now see how long each step/stage takes, who is to blame and the reason. The service level agreements (SLAs) between retailers and wholesalers were agreed by trading parties but can be improved on the back of better data.

Q: How does the forward MOSL programme, and key things like MPF review, mesh with the needs of other key processes such as PR24?

MOSL's view is that the timing of the MPF fits well with PR24. Consideration of incentives under the future performance framework must take account of the price control to ensure incentives are aligned and that there are no overlaps. The timings of these programmes mean that the development of the MPF and can mesh with PR24. The next 3-6 months will be key for NHH input to PR24. Ofwat are planning to publish a discussion document before Christmas and the draft methodology in summer 2022.

Q: Have you considered accommodation efficiencies which could be secured through a hybrid home office working model?

MOSL is adopting a hybrid home working office model going forward. Our office will become a collaboration hub for colleagues who will continue to have the option to work from the office should they choose. We will keep office utilisation under review to ensure our current accommodation meets the needs of our business under a hybrid working model going forward. We have also considered accommodation efficiencies related to our committee and Panel meetings, all of which have been successfully held remotely. Our business plan includes savings made by trading parties and other stakeholders not travelling to attend these in person.

Q: Should the bilateral cost benefit assessment include trading party costs and not just MOSL costs?

MOSL: We welcome a continued two-way dialogue to better understand how the bilaterals hub is impacting costs for trading parties. The business case did include an assessment of trading party integration costs. Tracking actual costs incurred is not considered feasible as these costs will often form part of larger projects within each trading party and this makes a like for like comparison extremely difficult.

Q: If the premises data items are important should they be mandatory rather than optional?

MOSL: The completeness of data is just one aspect of data quality. Ultimately, the goal is to have accurate data that supports the efficient operation of the market and positive outcomes for customers and the environment. Whilst mandating additional data items will improve completeness it is no guarantee of improved accuracy and in some cases drives reduced accuracy as a result of having to put something in that field. The most

effective way to assess accuracy is to validate/verify against external data sources, ideally multiple sources. A central data cleanse and enrichment service, affords the opportunity to drive improvement with greater pace, efficiency and consistency. In parallel, the data strategy work will explore the ownership of key data fields and opportunities to simplify the central market data set, allowing focus on the data items that truly drive value.