

# “IT’S TIME TO ACT”

MOSL told this year’s CEO Forum that the time has come for everyone to rally round the flag of getting the retail market into a better place.

**N**o one disagreed with MOSL’s assertion at its CEO Forum this year that “It’s time to act” to resolve ongoing frictions and address fundamental design aspects that are holding the non household (NHH) market back. MOSL’s view, circulated in a strategic narrative ahead of the event, is that the market is fixable without legislation, which implies prompt change is possible, if there is a will for it.

Opening the meeting, chair Anne Heal noted two key developments since the last in-person Forum in 2019: that Covid had revealed fragility in the market; and that environmental ambition had rocketed. She called for the market to be considered fully as part of wider policy, asserting that as consumers of 30% of all water put into public supply “these customers are not ignored”. She touched on the part MOSL specifically could play in providing data-based insights as well as participating in market governance and strategic direction. Heal said it was “crucial we revisit some of the choices made at market opening”.

On the day, there was lots of energy and enthusiasm in the room. The CEOs of most major retailers and a number of the smaller ones participated. There were three wholesaler CEOs, with the others represented at senior level. There was also an assortment of other stakeholders. Inevitably, some differences of opinion emerged about exactly what should be done, by whom and when. But the mood was positive and constructive throughout.

## Projections and reality

MOSL chief executive Sarah McMath was characteristically candid in her assessment of market performance to date, and

creative and bold in her thinking about what to do now. The MOSL narrative pointed out that the UK Government estimated that opening the market to competition would deliver more than £200m in overall net financial benefit to the UK economy – in greater choice, lower bills, more water efficiency, improved service standards, innovation and spillover benefits to households.

Not only has much of this not materialised (there remains low and declining switching rates, and a lack of water efficiency delivery), but since 2017, new environmental policy priorities have emerged that business customers could support if they were enabled to do so. Notable here is the national Net Zero commitment; the classification of eight further water company areas as water stressed; and the Environment Act with its water demand reduction target in development. McMath said it is hard to process that current Water Resource Management Plans make no provision for change in demand from the business market, and that there’s limited awareness of water scarcity among NHH customers. She argued the market “can – and in my personal view – must” deliver for the environment as well as customers. “Key to both of these elements is good quality data.”

MOSL’s narrative went on to cite low margins as a driver of these market shortcomings, together with complexity; costs not factored in before market opening, not least of which are MOSL’s charges; and challenges arising from changes in responsibilities (such as retailers performing meter reading without the economies of scale afforded to wholesalers before the market opened). It argued: “Four and a half years into the market, the majority of retailers made losses in their most recent financial reporting, even before the full impact of Covid-19 had been reflected. The continued effect of these additional costs and low margins is eroding value, inhibiting new entrants and risks stifling innovation, investment, and the develop-



ment of improved service offerings (including water efficiency). This is bad for customers and for the environment.”

## Redefining choice and value

McMath reflected after the Forum: “I think there is something about being really honest about what the market is delivering. And if you look at it very bluntly as ‘choice’ and ‘value’ being the ability for the customer to choose their retailer and the ability for them to save some cash, then the market isn’t working. Whichever way you look at it, it’s almost impossible... even for very large users.” She pointed out that only one of the top ten biggest consumers in the market has switched.

She said it is high time we redefined ‘choice’ and ‘value’ on the back of learnings from the past four years, to unlock untapped value. Choice, firstly, could be defined as the ability for a user “to have the choice to have a relationship with their water usage and to choose to reduce that usage or to change the time of day that they use their water”. How this would manifest would be very different for different types of customer and in different areas. For an industrial user in a water stressed area, it could extend to making provision for an on-site reservoir that could be replenished overnight, for ex-



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ample, boosting business resilience and relieving pressure on the network.

Meanwhile, ‘value’ could be defined much more broadly than currently. In fact, McMath said: “The value proposition is not just about financial value, because my personal view is that water is just too cheap, meaning it’s undervalued by society...it’s very hard for people to engage with water as a scarce resource when it’s cheaper than any other utility.”

She suggested expanding value two ways. First, wholesalers could recognise the demand side potential of this 30% of water they supply. That might be in terms of reducing the need for infrastructure builds or increasing network capacity, for instance. Second, the potential for business customers to contribute to broader environmental objectives could be recognised – not least of all, Net Zero. MOSL is already providing data which correlates NHH water usage to carbon emissions. In fact, McMath argued, “all of the things we are now talking about in terms choice and value are because we have done a lot of work on data insight”.

Both of these definitions of value relate to business customers being encouraged and supported to use less water, where this is desirable and feasible. She commented: “One of the reasons we put the

‘time to act’ tagline on it [the CEO Forum] was because is it a bit frustrating when we have conversations about why water efficiency doesn’t work. Sometimes I feel like I’ve stepped through the looking glass on that... well of course it doesn’t work because the people who’ve got the responsibility for it only make money as a direct proportion of the amount of water they sell...So there is no direct incentive for them to encourage customers to use less.” Moreover, she argued, few retailers employ plumbers and engineers – the sort of staff you need to go into premises and actually check and fix water using devices.

She added that “wholesalers really should care” because they “have 100% accountability for 100% of the physical product, through 100% of assets and 100% of meters”. But she observed competition law concerns may have got in the way of wholesalers playing a more active role and led them to uncouple from that 30% of water put into supply. However, that’s a wasted opportunity, McMath felt. “When you look at the data, 1% of the NHH market uses 50% of all the NHH water, so that’s 15% of all the water in England being used by approximately 13,000 customers. It sort of feels like you could get them all in a room or ring them all. It feels like a doable role, and even if you

take it to the 1.2m [all NHH customers], it’s a vastly smaller number [than domestic customers] with a much higher meter penetration, so you’ve got a much more controllable part of your value chain.”

She wrapped up on the subject: “That really was the reason for the ‘time to act’ message – to say that this isn’t something we need to spend another year thinking about.”

### Channels of change

But exactly how to act? McMath counselled collective and individual accountability and saw a range of possible channels for change. These included: reform of the Market Performance Framework (MPF – see p29), the Retail Exit Code (REC) review, PR24, Defra’s Post Implementation Review, and the work of the new Strategic Panel and Code Change Committee.

She offered really positive feedback on the first meeting of the Strategic Panel, which took place last month after the CEO Forum: “The conversations have been absolutely focused on customer outcome,” she reported, adding: “It’s really helpful in that Strategic Panel to have Defra and Ofwat in the room at director level because they are hearing the conversations live, not second hand written down.”

McMath said part of the action needed might just involve “joining the dots”. Wholesalers already have an incentive to get NHH consumption data accurate, because if it is wrong, leakage calculations and per capita consumption calculations will be wrong too – “both of which have massive financial incentives around the Outcome Delivery Incentives (ODIs)”. There is understandable caution from companies, she continued, from thinking this way as “you don’t know which way it’s wrong” – i.e. securing accurate NHH consumption data could show leakage and/or PCC to be higher than currently measured. “If you get all of the data right in the system, some companies’ leakage will go up and some will go down... That is the hesitancy.”

She continued: “I think there is a simple solution. I think that Ofwat should just treat it as ‘best data’ so the leakage just gets reset. There is a better data clause in all of these ODIs which says, if you learn something new, you just correct it, you don’t get any benefit for getting it right but you don’t get penalised either. I think if we could be clearer on how Ofwat will deal with best data and I think that’s the answer.”

In its pre-event strategic narrative, MOSL shared its thoughts on other actions that could be taken to fix the market, for delegates to reflect on. These concerned: continuing to tackle the three market frictions of data quality, inadequate wholesaler performance and wholesaler/retailer interactions; and ways that might be considered to create some financial headroom for retailers ahead of the REC review.

**Stakeholder perspectives**

Addressing the Forum, Ofwat’s interim chief executive David Black agreed it was “time to act” and highlighted that Ofwat’s vision for the market is for it to grow value. He acknowledged the progress made since last year’s virtual Forum in various areas but agreed with MOSL that on the data quality and wholesaler performance market frictions “progress has been too slow and we need to accelerate”.

He said retail costs will be looked at as part of REC review but cautioned that Ofwat would not pass on costs of inefficiency to customers. He called for more innovation, and pointed to Ofwat’s recent paper on open data as relevant to the NHH market. Black also called on trading parties to support the Strategic Panel and MPF review “as a priority”. In a panel discussion, Ofwat’s business retail market director Georgina Mills shared that Ofwat is in the camp of radical reform on the latter, commenting of the existing framework: “I’m not sure it’s fit for purpose”.

Other stakeholders to back the “time to act” tagline at the Forum included Mike Keil, CCW’s director of policy, research and campaigns. He said in fact “We can’t afford not to act” and said CCW had a renewed strategic focus on business customers planned for 2022. He saw a “massive opportunity coming up with PR24,” noting: “Incentives can go a long way to encouraging and improving outcomes focus.”

Davide Minotti, Defra’s deputy director of water services, gave delegates an overview of plans for the department’s Post Implementation Review, five years on from market opening. He explained the objective is to look at whether Gov-

ernment policy objectives have been achieved. In scope are matters including: impact on customers, interim supply arrangements, process efficiency savings, water efficiency savings, the impact on developer services, and how retail exit has sat with New Appointees and Variations. He ran a short workshop seeking Forum delegate views on how far policy objectives have been met, what the market has achieved, and what its challenges are.

**Day-to-day delivery**

While the market waits for the major upcoming channels of change to roll around, McMath pointed out that the Strategic Panel and Code Change Committee will be able to get to work processing changes more promptly and efficiently. At the CEO Forum, a number of members of the MOSL team also detailed how the market operator will also be working with trading parties in the short to medium term towards better outcomes. This included:

Finance director Steve Formoy set out the “MOSL big five” initiatives in mind for next year’s business plan, which is for 2022-25 now the organisation has moved to three-year rolling plans. Alongside continuing work on its three critical programmes – the Bilateral Transactions Programme, Data Insight and the Strategic Metering Review – it will work on the MPF review and Central Market Operating System modernisation. The plan is to hold charges flat in real terms. A consultation on the business plan will be out in January 2022.

CIO John Davies covered the Data Insight Improvement Programme. A Data and Information Charter defining principles for data and information management has been published and work is underway to develop a Market Data Strategy, which will set out how data and information will be used to achieve the goals of the market. Davies devoted the bulk of the workshop to seeking feedback on the idea of a central data cleanse, supporting trading parties to cleanse the data they own. He pointed out data is “one of the most significant frictions in the market and one that hasn’t materially improved” so there is a need to do something different. Business Stream chief executive Jo Dow shared the experience of the Scottish market, where in 2013, after five years of operating and with similar issues evident as in the English market now, Scottish Water funded a

£1.9m centralised data cleanse. Among many things, this revealed 5% of NHH customers were not in the market database, which ultimately brought in £15m of wholesale revenue, an eight-fold payback. “I’m a big fan of doing this centrally,” Dow concluded, observing it will enable the market to “move forward at pace”.

Market development director Adam Richardson led a workshop on the MPF, commenting that currently: “We’re not getting the outcomes we want to see.” He noted that we may end up with a much lighter touch approach, shrinking the 48 existing metrics down to a “handful”. Speaking after the Forum, McMath agreed with the idea. She said: “If you strip right back, what is the desired outcome of this market? The desired outcome is that we have highly accurate consumption data. We need that for two reasons: so retailers can provide highly accurate bills for customers, and so wholesalers can monitor and measure usage.”

**Action?**

So, will 2022 prove the moment of action? Ofwat has made it plain it is up for radical reform of the MPF but has been less forthcoming on its appetite for revisiting other market fundamentals via the REC review and PR24.

Reflecting a few days after the Forum, McMath commented: “I think there is a real opportunity, with Ofwat being fully engaged in this process, for them to get real clarity and evidence of the reality.” With many retailers making a loss, she added: “I struggle to see how you can ignore the data in front of you. So on that side I am positive that the REC review will be a proper, evidence based review, I think Ofwat is open to considering all the angles. I think the challenge is – and it’s a fair challenge – what the market has to prove is that the costs it is incurring are efficient... So I think there is a real balance here.”

More generally: “I think it’s a very positive time for the market, there are lots of stars aligning, lots happening at the same time. What gets out there publicly is the doom and gloom message that...nothing’s working. I genuinely think we are in a positive position now all things are coming together. We’ve got the data, we’ve got the evidence, we know what the problems are...we’ve got the groups in place to make it happen. Now it’s just keeping up the momentum to make it happen.” **TWR**



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