

## Market Performance Framework (MPF) Reform: Consultation 2 webinar

13 March 2023 – 1400 - 1600

### Attendees

James Higgins (MOSL) (JH)	Jo Dando (Smartawater)
Adam Boyns (CCW)	John Gilbert (MOSL) (JG)
Adam Richardson (MOSL) (AR)	Karma Loveday (The Water Report)
Alex Cowie (MOSL)	Kate Russell (Yorkshire Water)
Alexandra Piper (MOSL)	Kristin Garrett (Waterplus)
Andrea Burnett (Northumbrian Water)	Kevin McCalliskey (South West Water)
Andrew Smith (Castle Water)	Lisa-Ann Lott (MOSL) (LAL)
Angela Brown (Northumbrian Water)	Lucy Byrnes (CCW)
Axelle Saada (MOSL) (AS)	Martin Phelps (Dwr Cymru)
Ben Storrie (Verastar)	Martin Pope (Southern Water)
Bill Clarke (SES Business Water)	Matthew Coggins (Water2Business)
Brianne Kearney (Everflow)	Matthew Glover (Wave Utilities)
Brian Traynor (Southern Water)	Matthew Martin (SES Business Water)
Chris Dawson (MOSL) (CD)	Michelle Marvell (Thames Water)
Chase Gunning (Valytica)	Mitchell Yeoman-Boldry (Yorkshire Water)
Christina Blackwell (CCW)	Neil Pendle (Waterscan)
Christopher Wright (Castle Water) (CW)	Oliver Robins (MOSL)
Clare Garland (United Utilities)	Peter Strain (Castle Water)
David Morris (Water Plus)	Phill Mills (UKWRC)
David Seymour (Thames Water)	Ray Porter (Castle Water) (RP)
Edward Fiederle (Wave Utilities)	Richard Barton (Pennon Water Services)
Eleanor Pendle (Waterscan)	Rosalind Carey (Business Stream) (RC)
Evan Joannette (MOSL) (EJ)	Sam Dawson (Portsmouth Water)
Fiona Matheson (Business Stream)	Sarah McMath (MOSL)
Gillian Bladen (South West Water)	Shaun Kent (Ofwat)
James Goodall (Waterscan)	Steve Formoy (MOSL) (SF)
Jamie Davies (Castle Water)	Syndiso Bango-dube (Waterscan)
Janet Judge (MOSL) (JJ)	Trevor Nelson (Business Stream) (TN)
Jesse Wright (United Utilities)	Matthew Turner (Affinity Water)

There were 58 attendees made up of:

- ◆ 13 MOSLers
- ◆ 6 non trading party representatives (3 x CCW, Ofwat, UKWRC & The Water Report)
- ◆ 39 trading party representatives of which:
  - 14 attendees from wholesalers representing 8 organisations
  - 23 attendees from retailers representing 11 organisations and 2 self-supply

## Notes

The MOSL team introduced themselves to attendees.

Chris Dawson (CD, MOSL) thanked the Performance Advisory Group (PAG) for their input and acknowledged their hard work over the last year.

Adam Richardson (AR, MOSL) began the webinar noting the amount of information provided in the consultation and this is not the finished proposal but is the potential universe of tools and metrics from which the best set will be selected to compose a future performance framework.

AR confirmed the consultation provides an early opportunity for wider feedback to inform the way forward towards a firm proposal and enables the co-creation of an MPF through active engagement.

AR further noted this is an important stage in the development of a framework which ultimately will be agile and simple and support competition whilst providing value for money.

CD moved forwards with the webinar confirming the slide deck and the recording would be published afterwards. He also noted the consultation is seeking feedback on the candidate metrics for market activities that could be used to monitor performance, intervention tools that may be used to support delivery of the required performance and the overarching process and governance framework.

Following Janet Judge (JJ, MOSL) & Axelle Saada's (AS, MOSL) run through of the use of the matrix spreadsheet CD paused for questions on using the spreadsheet to answer the consultation questions.

Ray Porter (RP, Castle Water) noted a question already raised in chat at 1415 regarding the complexity of responding to the consultation meaningfully when presented with such a large volume of information.

Neil Pendle (NP, Waterscan) replied suggesting a guidance document from MOSL to the PAG had been useful in understanding how to navigate the information in order to provide a response.

CD noted he would return to any other questions at the end of the presentations.

AR continued by detailing the overarching governance for the framework.

Following the presentations CD ran through the questions posed in the chat, as below, with their responses: -

In chat Q&As and MOSL responses (questions in bold)

**[14:15] Ray Porter, Castle Water**

**Q: I question the starting point been the "known universe" and more. Even if that was appropriate, then before we start to cut this list of candidate metrics down to size, we must have some idea of what size is appropriate and a clear objective that it should be minimum absolutely necessary. What is the current thinking on size and scope?**

RP continued - regarding the question of what is our universe, we should start with having confidence in a working competitive market. However, that seems not to be the case in defining our universe so widely, and way beyond the current scope of the market codes. That is of concern.

[14:19] Shaun Kent, Ofwat

Ray we know the market and competition are not yet working effectively - given the aims of the market are to provide a better customer outcome, a wide scope for the MPF would therefore be appropriate

[14:32] Ray Porter

Thanks Shaun.

We all agree with seeking better customer outcomes, but perhaps there is less agreement on how that is defined and measured.

An overly bloated and burdensome MPF risks imposing costs and diminishing customer outcomes. That must be avoided. Any MPF must be workable and the minimum necessary, even if we are yet to agree on a definition of "minimum", which I would define more tightly.

I suggest that we need to be careful that any reformed MPF is appropriate to the NHH market; any perceived shortfalls in competition should be addressed directly or through appropriate regulation. We need to think carefully about putting everything into a single MPF, as appears to be being proposed here as I fear that could risk proving counterproductive to our original objective.

**[14:34] Sam Dawson**

**I agree with Ray here and have some concerns the focus will be towards understanding the MPF and preventing penalties rather than considering the best outcome for the end customer. I appreciate the changes to the MPF are designed to improve customer outcomes, but that will only happen if/when all Trading Parties are confident with the MPF, and these metrics seem more complex than the current ones.**

Evan Joannette (EJ, MOSL) noted this is a similar theme to Kristin's final question in the chat (covered later in this document).

Steve Formoy (SF, MOSL) responded initially on the 'size and appropriateness of that universe' noting consultation 1 focused on the most important activities with the biggest risks and issues within the market which has created tier 1 activities which are most important for the MPF to intervene on and where the biggest range of interventions is expected.

SF went on to explain there are tier 2 activities where some interventions are expected however these are less critical than tier 1 and finally tier 3 where potentially no interventions are expected.

SF also noted some narrowing of intervention types and limited narrowing of the metrics and tools thus a relatively large list has been provided for feedback in consultation 2.

SF highlighted work in respect of natural and regulatory incentives had been undertaken at an earlier stage with input from PwC, this indicated natural incentives not working effectively at present for most customers and therefore cannot be relied upon. However, an opportunity exists to help those natural incentives work better.

SF noted the future MPF will not act as a silver bullet and solve everything in the market. SF also noted the need to remain focused on the success criteria and a simple MPF is included within those.

RP responded, 'we should want a competitive market and the degree to which we haven't, is a concern.' An MPF won't be able to create a perfectly competitive market. Quite the opposite, natural incentives are what they are. You can't replace them or something. They always exist. If they're not working, then we should be looking at why they're not working.

SF noted 'saying the same thing'; there are definitely ways in which an MPF can enhance natural incentives however it will not solve all problems.

**[14:57] Kristin Garrett, Water Plus**

**Is there a target number of activities and metrics for inclusion in the MPF? I agree with the comments about the complexity of information provided in the consultation, and the difficulty for participants to meaningfully provide feedback at this stage, and the direction of travel appears to be to a far more complex MPF. It would help to understand the number of activities/metrics intended to be included in the new MPF**

SF noted activities now divided into tiers with tier 1 being high priority and for inclusion with 10 activities included in that tier. Tier 2 contains 21 activities and most activities in that tier will be included. Tier 3 unlikely to be included due to limited intervention.

SF highlighted MOSL is seeking feedback from trading parties at this stage and will narrow down further at next stage of process. SF explained that MOSL is conscious some metrics could be applicable across a range of activities and the framework must be simple and easy to use as this is a key success criteria against which it will be judged.

Axelle Saada (AS, MOSL) noted MOSL is sympathetic to feedback and reassured attendees whilst a large amount of information was supplied in the consultation it does not mean the future MPF will be large and

complex. We are aiming for the MPF to be simple and there will be further rationalisation completed on the metrics and tools. The intention is to propose different levels of scope in consultation 3.

EJ enquired how if respondents feel very strongly or not strongly about a tool or metric they should respond; simply a list of metrics with the references numbers and reasons why they like/dislike?

AS replied yes this would be sufficient and requested respondents use the metric or tool ID when responding.

AS further noted respondents should focus on those aspects of most concern and reassured this is a 'work in progress' to which further feedback will be requested in consultation 3.

**Rosalind Carey (RC, Business Stream) raised a point of clarity, noting tier 1 includes 10 activities with 117 metrics and a number of further interventions asking if this reflects MOSL's current proposal or will it be much smaller?**

SF confirmed all 10 activities have large market risks or issues associated with them however the number of metrics referred to is unlikely to apply in the final MPF proposed. Any final proposal will ask if the tool and metric will improve the market and improve the activity if it does not meet those principles then should not be included.

RP interjected to say he was not reassured by indications of not requiring comment on all details and highlighted if something missed at this stage may not be included or other items may remain which should not. RP indicated his view it's challenging to respond to the consultation and highlighted concerns about MOSL's ability to process feedback on this scale.

CD noted RP's feedback and highlighted the challenge of balancing industry input and making things too simple.

Trevor Nelson (TN, Business Stream) highlighted prioritisation of tiered activities completed with pure maths looking at risks however does not mean activities can be resolve via MPF or should be as other natural incentives may exist e.g., other regulatory regimes

EJ agreed with TN and reminded attendees some activities had already moved between tiers and it is still feasible for activities to move between them.

TN enquired as to when it will be agreed as to whether activities should be included in the MPF as some are strategic issues and may not need to be included.

Adam Richardson (AR, MOSL) thanked TN for his feedback and that of all attendees via the chat. AR reiterated the MPF is not a silver bullet and cannot solve everything. AR noted the need to ensure the MPF benefits both trading parties and end customers.

AR highlighted the consultation and the webinar are interim steps to seek views a wide range of candidate elements and this will inform the way forward with the PAG to develop options to share with the strategic panel before putting those options out for consultation more widely with trading parties and other stakeholders in the summer.

AR noted he expects the revised MPF to contain a small number of high-level outcome focused metrics with perhaps a few minor performance level metrics.

AR encouraged feedback on measures attendees believe will move the dial on where the industry is and to make a real difference moving forward.

Chris Wright (CW, Castle) observed the need to determine the underlying problems in the market and how they should be resolved.

SF agreed at the next stage of design the need to ensure the tools and metrics must address the root cause and this is mapped to the risks and issues tracker created.

**[14:28] Sam Dawson, Portsmouth Water**

**Would the two-way payments remove the MPS charges cap?**

Janet Judge (JJ, MOSL) replied charges, caps or redistributions have yet to be discussed and will be addressed at the detailed design phase but requested if trading parties have a view on these this could be included within their feedback to this consultation.

**[14:34] Andrew Smith, Castle Water**

**Q - If something is an obligation or a question of compliance, how can a metric be an appropriate measure?**

AR replied that quantitative metrics are not always the best way to track compliance or to test it and this may be better suited to audit type tools. Metrics may be utilised to provide an indication or guidance as to where further intervention such as an audit may be warranted.

**[14:37] Sam Dawson**

**Q - For new standard GS.9 and M037, presumably wholesaler reads will be considered? (That might be getting too into the detail).**

JJ confirmed this is not specifically listed at present and encouraged SD to share this as part of the consultation feedback.

SD enquired if it is necessary to review the entire consultation on this basis.

CD confirmed MOSL are available for any queries of this kind and happy to provide support to respondents.

[14:37] Ray Porter

Observation (Ray, Castle Water): I am unsure of the concept of being paid for exceeding some arbitrary SLA on a given metric; on all metrics the requirement is presumably "100%" but in practice there may be good reasons or external factors that would limit the actual outcome achieved. Paying a Trading Party for achieving say more than 95% on a target of 100% would seem questionable.

CD noted RP's observation.

**[14:38] Trevor Nelson, Business Stream**

**While I appreciate the thinking has been wide and has resulted in a universe (to continue with the analogy) when will work be undertaken to ensure we are orbiting in a more navigable solar system and how will this be done?**

**It is clear the activities do need to be rationalised to ensure that the first cohort for inclusion meets the success criteria – design principles (published in June 2022) which include “simplicity over complexity”, the “framework is transparent and proportionate”, “deliver value for money for stakeholders”, “consistency and compatibility with the wider regulatory regime” and “support competition” (which includes differences between existing natural incentives for retailers and the monopolistic nature of wholesalers). Thank you**

[14:42] Ray Porter

Q (Ray, Castle Water): Given the deliberate breadth of metrics and scope of this second consultation, how is it envisaged that Trading Parties will meaningfully engage with the volume of documentation and provide the detailed feedback necessary to inform the next phase of work? How will MOSL and the PAG meaningfully pick up that feedback? The problem seems to me to have been defined too widely upon which the get the feedback required to progress with the confidence of stakeholders. My fear is that this process has a life of its own, and consultation feedback will be difficult to use in shaping the next phase.

[14:48] Wright, Jesse

Jesse Wright, United Utilities. Given the scope of potential metrics and variety of ways those metrics will be used, it appears impractical and inefficient for each trading party to review all metrics and all the ways they may be applied. The response to this consultation cannot be seen as companies feedback on all of the metrics and tools, rather general feedback that will then need further consultation and refinement.

[14:48] Ray Porter



Observation (Ray, Castle Water): Am I alone in listening with concern and disbelief regarding the complexity of the consultation material and the way that it is presented?

I suggest it is not yet fit for consultation and I struggle with knowing how we will answer questions such as "do you have any comments on the metrics?" This is a monster to respond to and to summarise when reviewing the feedback.

[14:48] Ben Storrie

Observation (CBW) - Agree with Trevor and Ray. Given the volume of information trading parties have been asked to review at this stage it's crucial to understand how MOSL/the PAG will filter down the options post-consultation. For example if certain drivers i.e. cost, impact on a certain activity, will be a bigger consideration than others We should ensure that resource requirements for engaging in a) the MPF reform programme and b) the new MPF when it is implemented are proportionate and don't detract from being able to achieve the outcomes we all want for the market

[14:50] Sam Dawson

Not a Q, just a comment - these new metrics and mapping the activity to the reference and what tool each triggers is very very complex. Having gone through some new staff training fairly recently, explaining the current MPF was complex enough.

EJ noted the above questions had been responded to as part of answers to other queries.

**[14:53] Phillip Mills, UKWRC**

**How and where are you taking account of existing metrics and KPIs that are already reported to other regulators. How will you ensure we aren't creating duplication and additional burden for retailers and wholesalers - that will only reduce efficiency / create additional costs for TPs - which is contrary to getting better outcomes for customers.**

AR confirmed awareness of candidate metrics which are already reported elsewhere and should those be included in the future MPF the importance of ensuring no duplication of data collection or reporting activity nor any duplication of the work of any other body.

AR noted discussions being held with Ofwat and CCW to prevent such duplication.

[14:54] John Gilbert

John Gilbert - MOSL - Ray Porter you will have this webinar to look back on and as Adam Richardson said at the start of the meeting we are only a call away.



[15:07] Ray Porter

Q (Castle Water): Peer comparison - what are the proposals to ensure that any external factors outside of a Trading Party's control are first removed before metrics are calculated (i.e., we normalise the data) to thereby ensure that we are comparing 'like with like'?

Also, please can you confirm that any calculation of metrics will be properly audited, to ensure that the current errors in the calculation of MPS figures are not repeated?

[15:12] Richard Barton

Q or maybe just a comment! My concern is that this fundamentally doesn't change the dial in terms of market performance. Is there a danger we replace the current framework with a load of different metrics but no real change to the market for customers to achieve better outcomes there might need significant changes to the workings of the market as a whole. Get this right and then the natural incentives come to the fore which is what the market should be.

[15:14] Wright, Jesse

Jesse Wright. Agree Richard an MPF cannot be expected to resolve issues created by market structure.

[15:15] Ray Porter

Richard - well said; that's the point that I was trying to make less well. I completely agree with that concern.

[15:16] Trevor Nelson

Q Business Stream in response to Steve. The tiered activities have been based on maths and not if they are sensible to be included against the design principles such as competition i.e. natural incentives or if it's included in another regulatory regime.

[15:20] Ray Porter

Q: Evan, a good question, but it isn't as simple as providing a list of those metrics which we like or hate. To be meaningful, we need to comment on everything. If we don't, previous experience is that silence will be seen as acceptance. Hence, the need for the consultation not to be massive but to be manageable and meaningful. We need to be able engage at the level asked by the consultation, and right now that is too great.

Q - Brianne Kearney, Everflow: Agree with other comments and concerns around complexity, in the current format we also have concerns about how we can meaningfully feedback. If all TPs are to prioritise what they are most concerned about rather than reviewing the full piece of work, is there not a risk that the feedback

MOSL receive will be inconsistent with no strong pull in any direction and therefore not fit to inform the basis of the next stages?

[15:21] Angela Brown

Agree with Brianne

[15:22] Axelle Saada

Ray Porter Consultation 3 will happen before anything is built so there will still be full opportunity for the industry to disagree with any metrics/tools that make it into consultation 3, hopefully that is somewhat reassuring

[15:24] Phillip Mills

But Axelle - presumably Consultation 3 will be developed based on the responses you get to this consultation. So may be too late for some concerns.

[15:27] Ray Porter

Phill, Axelle, that was exactly my point and fear. So, given that risk, I am afraid that it doesn't provide with the reassurance suggested.

[15:27] Axelle Saada

We will indeed take Consultation 2 feedback into account in order to create the content of Consultation 3. However, if something is not part of consultation 3, it means it has been discarded (either due to Consultation 2 feedback or further analysis on expected costs and benefits) and is not proposed to form part of the MPF

[15:44] Ray Porter

Q: What thought has been given to embodying new metrics and processes into the market codes, in order to deliver the new MPF. It seems that many of the metrics are from outside the scope of the current market codes. The code change process cannot be an afterthought; it is central to the MPF reform.

Observation - the only thing that has been simplified is the form of consultation questions. These are too simple for the complex consultation. It make our response more difficult and MOSL's job the summarise particularly challenging.

[15:51] Angela Brown

Angela, Northumbrian Water – Observation: we welcome the opportunity to comment. However, I do agree with Ray – could it be broken up into smaller, more manageable requests for feedback. Or allow more time to respond.

A number of participants noted the complexity of the consultation and the likely complexity of processing the feedback received. Requests were made for an extended timeline and/or a less complex consultation document to be provided.

MOSL noted the feedback from attendees and agreed to review and revert following the webinar.