

A white line graphic starts from the top right, goes down and left, then right and down, then left and down, and finally right and down to the bottom left.

**Market Performance  
Framework (MPF) Reform**

**Part A: Governance**

25 March 2024

*Updated 10 April 2024*

## 1. Introduction

MOSL is working with trading parties operating in the non-household market to reform the [Market Performance Framework \(MPF\)](#) to make it simpler and more effective. The reformed MPF is due to come into effect from April 2025.

Engagement with trading parties and other stakeholders is a vital part of the programme to develop an MPF that works for the market and its customers.

The reform programme has involved a series of consultations with trading parties. The most recent, [Consultation 3](#), in September 2023, set out the proposed MPF model.

The proposed model comprises four components:

- 4 levels of [Governance](#)
- 9 key focus [Activities](#)
- 21 key performance [Metrics](#) (plus additional discretionary metrics)
- 8 Intervention [Tools](#)

Details of each component was published ahead of Consultation 3 (see links above).

## 2. Change process

The programme is now in the detailed design phase and is being delivered in four stages during the 2024/25 financial year. The process from analysing each component through to making the necessary changes to the Market Codes is as follows:

1. MOSL works with trading parties on the [Performance Advisory Group \(PAG\)](#) to design, shape and test proposals relating to the MPF components. The PAG includes representatives from Ofwat and CCW. Where necessary, MOSL will consult with the wider industry on proposals that have not previously been considered (e.g. metric targets, financial incentive levels). Depending on the changes, engagement can range from a survey to webinar to full formal written consultation.  
*Please note that trading parties are welcome to attend the PAG if there are topics they wish to hear discussed or to which they wish to contribute (please email [mpfreform@mosl.co.uk](mailto:mpfreform@mosl.co.uk)).*
2. Once workshopped by PAG, the proposals are reviewed and turned into proposed Market Code Changes by members of the [Code Advisory Group \(CAG\)](#); code change subject matter experts  
Once the CAG confirms it is 'minded to support' the code changes, they are published to trading parties, giving them confidence that they can begin making preparations for the change. The CAG will formally recommend the code changes once further industry feedback is received (or not)
3. MOSL submits the CAG-proposed code changes to the [Code Change Committee](#) with a supporting Draft Recommendation Report (DRR), which the Committee decides whether to recommend to Ofwat  
Following recommendation from the Code Change Committee, MOSL creates a Final Recommendation Report (FRR) which is submitted for approval to Ofwat
4. Ofwat publishes a draft decision letter on whether it's minded to approve the recommendation. Once the consultation period ends, if Ofwat affirms its decision, the Market Codes can be changed.

### 3. Purpose of this document

Following Consultation 3, MOSL will be running a series of smaller consultations focused on each of the four components of the MPF, i.e. Governance, Activities, Metrics and Intervention Tools.

Before changes are submitted to the Code Change Committee (Step 4, above), MOSL is hosting a meeting/webinar on Wednesday 27 March via MSTeams from 2-3:30pm to run through the changes with trading parties. [You can join the meeting via this link](#). A recording of the meeting will also be available.

**Ahead of the meeting, this document provides pre-reading material to explain the proposed changes to Part A – Governance.**

A more formal written consultation will be undertaken for future proposals that have not previously been considered by the industry (e.g. metric targets, financial incentive levels)

## 4. Part A - Governance

### 4.1. Progress since Consultation 3

Prior to Consultation 3, MOSL issued pre-read documentation to explain the four proposed levels of Governance being proposed.

The four levels are summarised in the table (right) and [described in more detail here](#).

Ref	Types of decision <i>see Section 5.4</i>	Decision maker
G1 ('lowest')	Operational	MOSL
G2	Operational and tactical	Performance Assurance Committee (PAC)
G3	Strategic	Strategic Panel
G4 ('highest')	Strategic (and contractual, i.e. Code Changes)	Ofwat

Since Consultation 3 [feedback was published](#), MOSL has been working with the PAG to address respondents' challenges and questions. The key parts of Part A: Governance seek to establish:

- Governance levels and responsibilities
- Performance periods
- Performance Assurance Committee (PAC) role in performance oversight (note: the PAC is due to succeed the Market Performance Committee (MPC))
- Composition of the PAC

## 4.2. Updates to the MPF Governance proposals

The table below outlines the changes to [the proposal](#), that have been developed following Consultation 3 workshops with the PAG and decisions by the Strategic panel.

The page references relate to the pre-read documents that were issued ahead of Consultation 3.

Reference	Changes from Consultation 3 proposal
<p>Performance periods and related activities (p10)</p>	<p>It was agreed that the MPF will operate in 'Performance Periods' of between 3-5 years (timescales to be determined by the Strategic Panel*), which will include a number of activities, including a Performance Period Report, Performance Framework Plan, Risk and Issues Tracker and Statement of Approach.</p> <p>It is now proposed that Performance Period activities are simplified. Instead of a Performance Period Report and Performance Framework Plan being produced at the start and end of performance periods, there will be one report - a 'Market Performance Review Report' - being requested by the Panel from time to time to evaluate the framework.</p> <p>This will replace the current Annual Market Performance Review (AMPR) process, and this one report will review the framework to date and set out recommendations for future focus/change.</p> <p>Each report is expected to signal when the next review will likely be requested, and there will be a backstop timeframe in the code to require this. A performance period does not need to become a defined concept in the code.</p> <p>The Risk and Issues Tracker and Statement of Approach will be refreshed each year as per the reference document. These activities will replace the Market Performance Operating Plan (MPOP).</p> <p><i>*Incorrectly referred to PAC in v1.0</i></p>
<p>Proposed composition of the PAC (page 12)</p>	<p>PAC composition to be updated as follows:</p> <ul style="list-style-type: none"> <li>• Independent Chair (voting, with casting vote)*</li> <li>• Customer Representative (voting)</li> <li>• 2 Independent members (voting)</li> <li>• 3 Retailers (voting)</li> <li>• 3 Wholesalers (voting)</li> <li>• Ofwat representative (non-voting)</li> <li>• Market Operator representative (non-voting)</li> </ul> <p>PAC quorum to be updated as follows:</p> <ul style="list-style-type: none"> <li>• Chair</li> <li>• Retailer member,</li> <li>• Wholesaler member,</li> <li>• Any 2 non-trading party members, and,</li> <li>• Additional member of any type</li> </ul>

The PAC composition requirements will be set out in code.

\* In the event of a tied vote, the PAC Chair will have the casting vote. Where the Retailer and Wholesaler PAC Members solely form the majority of votes, this will be considered as a tied vote and the Chair shall have the casting vote.

## 5. MPF Reform success criteria

The [Full Business Case](#) for the MPF Reform set out five success criteria for the programme. In the table below we explain how we believe the proposals for Part A: Governance meet those criteria:

#	Success criteria	MOSL view on governance
1	Facilitates improved customer outcomes	Agile governance allows for faster adjustments to MPF components that are successful in delivering good customer outcomes
2	Improves trading party accountability	Agile governance allows for faster adjustments to MPF components (e.g. metrics), which may be discovered during a performance period. More independent views on the proposed PAC
3	Supports competition	Agile governance allows for the relaxing of MPF components that may no longer be required where natural incentives of the competitive market are shown to be working better
4	Consistent and compatible with regulatory regime	Fundamental changes to the MPF would continue to be subject to change control and approval/rejection by Ofwat. If Ofwat amends its incentive frameworks or regulatory controls, the MPF would be able to flex appropriately
5	Enduring and agile	The ability to flex components of the MPF outside of the change control process supports an enduring and agile MPF
6	Transparent and proportionate	Governance would apply to any changes, whether codified or not with the ability for Trading Parties to have their say.
7	Value for money	The overhead to run PAC would be comparable to the current MPC
8	Simple	The proposed suite of MPF metrics and tools which would be subject to governance is streamlined.

## 6. More information

- The Part A – Governance webinar will be on Wednesday 27 March from 2-3:30 [via this link](#).
- Questions about the MPF Reform programme should be directed to [mpfreform@mosl.co.uk](mailto:mpfreform@mosl.co.uk).
- To receive updates about the programme, please ensure you have signed up to the [MOSL mailing list](#)
- More information about the MPF Reform programme is available on [the MOSL website](#)
- Original Governance documents for Consultation 3: [link](#)
- Proposed code drafting to deliver MPF Part A: Governance: [link](#)
- Code drafting release notes: [link](#)