

Marketforce *Future of Utilities*
'One year on: how has the market performed?'
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Introduction

Good morning.

Thank you for inviting me to talk to you today about the non-household retail water market – just 11 days before we reach the historic milestone of one year since market opening.

And what a year it has been, both for the market and for MOSL.

Our purpose

MOSL is the operator of the competitive retail water market.

We provide infrastructure, information and governance services to enable customers to switch retailer and for settlement to take place between wholesalers and retailers.

We are owned by all the water companies – wholesalers and retailers – who trade in the market.

Working closely with our water company members, we look for opportunities to improve and evolve the market for the benefit of non-household customers.

I'm pleased to report that even in this first year of market operation, in addition to running the market smoothly, we've been able to identify and implement some improvements, with more to come. I'll speak about that a little later.

I'm also pleased to say that we're forecasting to come in under budget for our market operator costs by around £1.7 million for the current financial year, and we have already returned those funds to members.

It's a demonstration our ongoing commitment to being a cost-efficient market operator.

In my presentation today, I'm going to reflect on, some of the market activity we've been seeing in the first year, some of the challenges the industry has and will continue to face and what we're doing at MOSL to help.

Market activity in the first year of the market

So, what market activity have we seen in the first year of the market?

11 months into the market, more than 112,000 SPID switches have taken place, representing a switching rate of over 4%, or 10% in volumetric terms.

We will report on the final full-year scores in April.



We have seen switching up and down the country, with activity concentrated in the South and South East of England.

It is positive to see that customers are switching and engaging in the market; but we should remember that switching is just one aspect of customer engagement.

Customers' renegotiations with their existing suppliers are an equally important measure of engagement that is not reflected in the switching figures.

What we are seeing however is that engagement has focussed on the larger side of the market. As recent analysis from CC Water has shown, there is still some way to go to reach out to SMEs.

I know that CC Water are working very hard with Ofwat and the industry to address this challenge.

As of today, there are 41 retailers in the market. Of these, 26 are national retailers.

Since market opening, we have seen 4 new national retailers enter the market, with 4 more on their way to doing so.

While there are 26 national retailers, many of these are either new or small players, and yet to be widely active, small out of area NAV arms, or intermediaries.

So far, we've seen between 12 and 16 national players active in different wholesale areas, excluding NAV areas.

An evolving market landscape

Within the space of only a year, we have seen changes in the market landscape.

It is positive to see a range of business models competing successfully and providing choice to customers in the market, from large national suppliers, to small and nimble disruptors, from specialist intermediaries to customers who have decided to become their own retailers.

The interest in self-supply has been a noteworthy development, exceeding the expectations of many, with more on their way to entering the market.

We welcome steps being taken by the regulator Ofwat to ensure licence arrangements for self-suppliers are appropriate and to encourage further participation in this part of the market.

Market performance charging – a step change

Year one has been a sort of 'dry run' from a market performance perspective, but next year we will see a step change in this respect, due to changes regarding the market standards.

There are two sets of market standards, the Market Performance Standards, which apply to wholesalers and retailers, and Operational Performance Standards, which apply to wholesalers only.

From 1st April, we will see the introduction of charges for underperformance by wholesalers or retailers against the Market Performance Standards.

MOSL has supported an important piece of work led by the Code Panel's Market Performance Committee to review the standards and ensure that they drive the desired outcomes.

Next year, the Committee will also be considering the potential introduction of charges against the Operational Performance Standards.

In addition to the introduction of charging, next year we will also be publishing information about how companies are performing against the standards.

Making performance information publicly available in future should be an additional incentive to companies to adopt the right behaviours to avoid any negative reputational impacts.

However, it is worth mentioning that although the charges have not quite yet come into effect, many companies have already been taking steps to improve their performance and to proactively address market issues.

For example, credit has been recognised as a potential barrier to entry for smaller players.

While Ofwat's review continues, we have seen one of the wholesalers proactively offering credit discounts to smaller retailers.

This type of self-governing, proactive approach to the resolution of market issues is one that we support fully.

The Code Panel also has an important role in the self-governance of the market, being comprised of members with water industry expertise, drawn from wholesalers and retailers and elected by water companies, as well as independents from outside the industry.

All members are required to act impartially for the benefit of the market and the end customers it serves.

The Panel has had a busy year, having considered 34 code changes and established 5 committees to look at specific areas of the market, such as the issue of trade effluent.

One of our priorities for next year will be to support the Panel to look at strategic market opportunities, such as a potential code review to make the codes more accessible to all and help reduce barriers to entry.

A targeted approach to managing market issues

As you can see here, there are a lot of market issues to address, covering diverse areas from meter reads, to trade effluent, to tariff complexity.

Yet one common theme we are seeing across many of these issues is the importance of data quality.

Data quality is such a major issue because the commercial and experiential impacts it has on the market and end customers are significant.

We think it's an area where we can add real value to our members and, ultimately, to end customers, since good data will:

- Assist easier identification of customers, their services and assets;
- Improve switching experiences; and
- Improved settlement accuracy with fewer re-runs.

Data quality – what's been done so far

Earlier this year we delivered some new indicators looking at data quality.

We've seen some encouraging signs in the first year but there's clearly more to be done.

The number of service points where missing or incorrect data has meant that financial settlement couldn't be calculated – known as 'user exceptions' – has halved and is on a continued downward trend.

We publish these metrics on our website for all to see and will continue to expand this reporting to continue momentum and drive further improvements.

Another area of focus in year one has included work to enable companies to better address data issues.

These initiatives include providing a platform for data sharing between companies, allowing them to match those water and wastewater service points which should be paired for customer premises.

This work, together with an associated change proposal going through the Panel related to this issue, will greatly improve retailers' ability to correctly identify a premise's services as part of their procurement process, which in turn will lead to improved clarity on pricing.

Data quality – what's to come

Looking ahead to year two, we will continue to use our position at the centre of the market to shine a light on companies' data and use a variety of tools and levers to improve it.

We will ensure that we are prioritising our efforts on the areas where data is causing the most friction for companies in delivering the levels of service expected of them by their customers.

Our forward plan for data quality improvement is being finalised as we speak and will be published in due course.

It will work hand in glove with our Market Performance Operating Plan to make sure we continue to link the symptom with the cause.

The areas that have been identified and agreed as high-priority by trading parties are those which will improve customer identification, switching experience and settlement accuracy.

These include:

- Uploading historical meter reads into the system

- Improving estimated consumption data to cover for where meter reads are not present; otherwise known as 'Yearly Volume Estimate (YVE)'
- Improving pairing of water and wastewater services for customers' premises
- And improving asset information to enable meters to be found, identified and read in a timely manner.

As we continue work on these areas, we expect to use a variety of tools to drive improvement, ranging from hosting market forums and discussions to share information and ideas about data quality improvement, through to the publication of data trends and insight.

Evolving the central market system

As well as being proactive in addressing market issues, we are also proactively looking at opportunities to evolve the central market system, CMOS.

Optimising the central market system can play an important role in the resolution of market issues.

We've recently made some great progress in developing CMOS. By the end of the month, we will have delivered a number of initiatives.

The first is MVI.

The current problem is that the access options to CMOS delivered little choice for trading parties other than to access transactions in bulk through the HVI or manually via the LVI.

Accessing the HVI required a reasonable amount of IT knowledge and integration to back end systems, typical of larger players.

Introducing MVI therefore enables smaller players the ability to leverage the benefit of bulk transactions without requiring an investment in technology.

The ability to validate a batch of transactions first then have the option to commit them to CMOS also means we expect to see an improvement in data quality by reducing data inputting errors.

The next development we will deliver is Proactive Notifications.

The current problem is that trading parties have been spending a lot of time looking for new transactions to process in CMOS due to the 'peek' and 'dequeue' way of working.

Proactive Notifications is a "push" mechanism that alerts you when you have a new transaction to process, meaning you can go straight there and manage the transaction, thereby minimising unnecessary on-screen time.

Thirdly, we are improving trading parties' user experience of CMOS with the assistance of guided workflow.

The current problem is that areas of the LVI are not as user friendly as they can be.

They require CMOS training, basic market code understanding and a domain knowledge of acceptable data attribute settings.

To reduce the level of training required to access the LVI we are building guided workflow screens that only show the relevant fields and data required in a simple step by step format.

This enables trading parties to use their time more efficiently by reducing transaction entry time.

All of these are examples of our commitment to championing innovative ways to reduce market friction, reduce trading parties' transaction costs and improve the end customer experience.

Looking ahead

We have some exciting initiatives in the pipeline too.

Bilaterals is one example that could significantly help reduce market friction.

Put simply, bilaterals refer to communication between wholesalers and retailers in the market that do not pass through the central system.

It can be very time consuming, costly and complex for trading parties to have to interoperate with a number of different systems and specifications outside of the central system.

Therefore, we are working with our members, through the work of the Digital Strategy Committee, to look at solutions for greater uniformity and standardisation in this area.

We're also keeping an eye out for new technologies that could play a role in the efficient and effective operation in tomorrow's market, such as blockchain, apps and data verification technology to improve data quality at source.

Concluding remarks

In summary then, year one has been an unusual year in many respects, and a year of the market finding its feet.

Moving forwards, it won't be acceptable to customers, politicians or the regulator to say that we are in a new market and need more time to get things right – the grace period is over.

It'll be about doing things right first time, every time.

The market will only be a success if it delivers on its promises for customers.

MOSL doesn't have a direct relationship with customers, but we are committed to enabling the market to operate and evolve for the benefit of customers.

I look forward to working with many of you in the room to do just that.

Thank you.

