

MARKET ARRANGEMENTS CODE CHANGE PROPOSAL

Change Proposal Reference <i>(To be completed by the Panel Secretary)</i>	CPM023	Version No	1.0
Type of Change Proposal:	Authority Timetabled Change Proposal		
Submission Date	20 March 2020		
Title: of Market Arrangements Code Change Proposal	Suspension of Market and Operational Performance Standard Charges		
Summary: of Market Arrangements Code Change Proposal <i>(40 to 50 Words Maximum)</i>	The change suspends the requirement for the Market Operator to issue invoices on, and Trading Parties to pay, Market Performance Standard (MPS) Charges and Operational Performance Standard (OPS) Charges for the months of March 2020, April 2020 and May 2020.		
General Details of the Proposer			
Name of Proposer	Dan Mason		
Capacity (on behalf of a Trading Party, as a Panel Member, as the Customer Representative or the Market Operator).	Ofwat		
Contact Email	Daniel.Mason@ofwat.gov.uk		
Telephone Number	07458 125674		
The Proposer recommends that this Change Proposal should: <i>(delete as appropriate)</i>	Proceed to Assessment		
	Proceed to Consultation		
	Proceed to Recommendation		
Is the change Urgent (Yes/No)? If yes, please provide reason for urgency (if applicable)	Yes The market faces an unprecedented and pressing cashflow and resource issue as collateral impact from the 2020 coronavirus pandemic. Suspension of market performance charges is a lever to relieve current market pressure, but		

	market codes do not currently allow for such a suspension.
Related Documents	
Reference of any associated Code Panel Market Arrangements Code Change Proposal	<p>Changes to the MAC to be implemented via CPM023.</p> <p>Changes to CSD0002 to be implemented via CPW090.</p>
Documents Accompanying Form	
Market Arrangements Code Change Proposal Details	
Description of the issue or defect which this Market Arrangements Code Change Proposal seeks to address, as required under the Market Arrangements Code Section 7.1.2(b).	
<p>Impact of the coronavirus on the business retail market</p> <p>In the UK, the outbreak and escalation of coronavirus is already having a profound impact on the lives of customers and communities, and this is likely to be the case for many months.</p> <p>From March 2020 in particular, there has been significant disruption to the activities of many businesses, charities and other non-household customers across the country due to the unprecedented challenge caused by the coronavirus pandemic. Given the Government's latest request to limit all non-essential contact and for employees to work from home where possible, many businesses across the UK have closed.</p> <p>Where it is feasible, safe to do so and within Government guidance and measures relating to social distancing, meter reading activities should continue to be undertaken. Alternatively, customers could be encouraged to provide meter readings, where possible. Nevertheless, 'business as Usual' activities, such as meter reading, are likely to be significantly affected.</p> <p>Impact on market performance standard and charges</p> <p>Given the Government's latest request to limit all non-essential contact, it is likely that meter reading rates will continue to decrease as meter access and read capability is likely to be reduced. Meter reading estimation is more likely over the coming months, which will impact Market Performance Standards (MPS)</p> <p>The water sector must also focus on doing what is necessary to maintain essential services to customers and the environment and avoid any disruption to supplies. To that effort, Wholesalers will likely be focusing efforts on security of supply, which will impact their Operational Performance Standards (OPS) as other 'Business as Usual' market tasks get deprioritised.</p> <p>Though in the shorter-term performance standards might show an improvement as late reads are not taken or entered into the central system, this only stores up a potential drop in performance when the situation recovers and late reads are entered. In the longer-term, performance against both MPS and OPS will deteriorate.</p>	

Description of the Market Arrangements Code Change Proposal, its nature and purpose and how it is consistent with the Market Arrangements Code Principles and required under the Market Arrangements Code Section 7.1.2(c)

During the coronavirus pandemic, it is unreasonable to penalise trading parties for failing to meet market performance standards due to factors outside of their control and as they focus on keeping water and sewerage supplies safe.

Therefore, we are proposing an urgent Authority Timetabled Change Proposal to the market codes that suspends the levy and collection of charges for market performance standards for a time-limited period (three months is proposed) from March 2020. This will be subject to continuous monitoring and review of market data by Ofwat and MOSL, to ensure that charges are reintroduced at the appropriate time.

Owing to the urgency of the situation there is merit in suspending all performance charges for a period, rather than looking at individual standards or charges. This this will be effected by a change to the MAC and WRC which suspends for 3 months the obligation on Trading Parties to pay MPS and OPS charges.

Ofwat's timetable for progressing this change is:

Change Proposal Timetable	
Stage	Date
Change Proposal raised	20 March 2020
Panel initial consideration and recommendation	20 March 2020
Recommendation Report submitted to the Authority	20 March 2020
Implementation Date	23 March 2020.

Proposed code changes:

Amendments to [Market Arrangements Code](#)

Insert at 10.4.2(c) after Initial Suspension Period 'and the Months of March 2020, April 2020 and May 2020

Insert at 10.4.2(d) after Initial Suspension Period 'and the Months of March 2020, April 2020 and May 2020

Insert at 10.4.3(c) after Initial Suspension Period 'and the Months of March 2020, April 2020 and May 2020

New para 10.5.3

For the Months of March 2020, April 2020 and May 2020 the Market Operator shall report the level of Market Performance Standard Charges and Operational Performance Standard Charges that would be due by each Undertaker Wholesaler Business and Retailer Business at the time of the invoice issued pursuant to Section 10.4.2 and Section 10.4.3 but such amounts shall not be due or payable.

Amendments to [CSD0002](#)

Insert new section 2.6

2.6 Emergency Suspension of Market Performance Standard Charges and Operational Performance Standard Charges

2.6.1 Market Performance Standard Charges for the Months of March 2020, April 2020 and May 2020 shall be calculated and notified by the Market Operator in accordance with the rules and values set out in Section 3.3 of this CSD 0002 (Market Performance Framework) but Trading Parties shall not be required to pay these charges.

2.6.2 Operational Performance Standard Charges for the Months of March 2020, April 2020 and May 2020 shall be calculated and notified by the Market Operator in accordance with the rules and values set out in Section 4.2 of this CSD 0002 (Market Performance Framework) but Trading Parties shall not be required to pay these charges.

Note:

Suspension of performance charges is something that the CMA can already do and is progressing in Scotland. Ofgem has also [announced](#) that it is taking a 'pragmatic approach to compliance' during this period.

Principles

Description of the principles affected by the Change Proposal on the items below (if applicable) as detailed under Schedule 1 Market Arrangements Code Principles and Definitions

Principles	Affected (Y/N)	Description
Efficiency	Y	This change proposal allows for Trading Parties to focus on the most crucial parts of their business to maintain security of supply.
Proportionality	Y	Considering the unprecedented effect of the coronavirus pandemic, this change proposal is proportionate and in the best interest of the market and the security of supply.
Transparency	N	
Barriers to entry	Y	This change looks to mitigate the risk to any new entrant to the market which would, in these pandemic conditions, immediately face the pressure of failing performance standards due to circumstances beyond their control.
Non-discrimination	Y	This change confers the same benefit to every Trading Party.
Customer participation	Y	The suspension of MPS and OPS charges could result in some customer facing activities being deprioritised (e.g. meter reading by Retailers, supply verification and meter exchanges by Wholesalers). However, any effect of suspension of performance charges is likely to pale in comparison to the impact of the coronavirus

		pandemic. By allowing the market to focus on security of supply, this is the best way to ensure there is no negative impact on customers who continue to trade, despite the pandemic.
Seamless markets	Y	The CMA is exploring a similar suspension in performance charges in Scotland. This change would bring the English and Scottish markets in line.
No limit on upstream competition	N	
Description of any consultation carried out in advance of the Market Arrangements Code Change Proposal being made (if any), as required under the Market Arrangements Code Sections 7.1.2(f).		
<p>Owing to the unprecedented and pressing nature of this issue, no consultation has been undertaken ahead of this change proposal.</p> <p>However, both the Authority and Market Operator have been in regular contact with Trading Parties who have expressed concerns about the impact of coronavirus pandemic on 'business as usual' operations and the likely negative impact on market performance. Those Trading Parties were supportive of a change of this nature.</p>		
Further Information		

Key	
	To be completed by the Market Operator
	To be completed by the Proposer