

MARKET ARRANGEMENTS CODE CHANGE PROPOSAL

Change Proposal Reference (To be completed by the Panel Secretary)	CPM008	Version No	1.0
Type of Change Proposal:	Code Change Proposal		
Submission Date	5 th December 2017.		
Title: of Market Arrangements Code Change Proposal	Redistribution of Market Performance Standards Charges change proposal		
Summary: of Market Arrangements Code Change Proposal (40 to 50 Words Maximum)	This proposal seeks to change the redistribution of charging arrangement currently specified in MAC 9.1.2, such that Retailer and wholesaler accrued market performance standard charges are redistributed solely between retailers and wholesalers respectively.		
General Details of the Proposer			
Name of Proposer	Nigel Sisman		
Capacity (on behalf of a Trading Party, as a Panel Member, as the Customer Representative or the Market Operator).	Panel Member and Chair of the Market Performance Committee		
Contact Email	panel.secretariat@mosl.co.uk		
Telephone Number	N/A		
The Proposer recommends that this Change Proposal should: (delete as appropriate)	Proceed to Assessment		
	Proceed to Consultation		
	Proceed to Recommendation		
Is the change Urgent (Yes/No)? If yes, please provide reason for urgency (if applicable)	No		

Related Documents

Reference of any associated Code Panel Market Arrangements Code Change Proposal

CPW030 Market Performance Framework for 2018/19 change proposal

Documents Accompanying Form

2. Recommendation on the MPS and OPS
3. MAC – CPM008

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).

The application of the MPS regime will lead to charges being levied on TPs where the relevant performance level is not delivered and charges are raised. Therefore a cash surplus will be generated which is redistributed in accordance with provisions of MAC, Section 9.1.2: “If the Market Operator holds a surplus of Market Performance Standard (MPS) Charges at the end of any Year, such surplus shall be redistributed to Undertaker Wholesale Businesses and Retailer Businesses in the same proportions as they shared the Market Operator Charges in that Year”.

Wholesaler and Retailer activity levels associated with the MPS are very different. Current evidence indicates that Wholesalers perform approximately 1,000 tasks per month which could incur an MPS charge where Retailers perform approximately 25,000 tasks per month which could incur a charge. This disparity, at least partly, explains why the calculated Retailer MPS charges during the Initial Suspension Period are very much higher than those calculated for Wholesalers. This disparity in the expected receipts from each of the Wholesaler and Retailer is expected to continue.

Under the current arrangements, market operator credited MPS Charges paid by retailers and Wholesalers will be treated as a single ‘pot’, which is then redistributed in equal proportions across Retailers and Wholesalers i.e. retailers as a group receive 50% of total charges, and Wholesalers receive 50% of total charges.

This creates the situation whereby retailers are contributing significantly more money in terms of MPS Charges to a single pot than Wholesalers. This asymmetry in the level of contribution to charges is not reflected in the distribution mechanism. As such, Retailers will subsidise Wholesaler’s underperformance.

The MPS charging regime will therefore distribute money from Retailers to Wholesalers effectively creating an additional cost to the Retailer community that would likely be borne by customers. The current charging structure may also blunt the competitive advantage of better performing Retailers over their poorer performing peers.

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)

The MPC proposes that Wholesaler and Retailer Charges ‘pots’ be ringfenced for redistribution purposes. This will create a fairer redistribution by ensuring retailer charges are not transferred to wholesalers.

The revised redistribution approach will also sharpen incentives for differential performance between peers in each of the Wholesaler and Retailer communities.

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	By sharpening the incentives on Wholesalers and Retailers implementation of the Change Proposal would improve the efficiency by which TPS deliver the performance standards encouraged by the standards.
Proportionality	Y	This Change Proposal ensures the redistribution of charges are more proportionate to charges contribution alongside Market Operator contribution, and reflects the discrepancy of size in number of tasks submitted between Retailers and Wholesalers in the Market
Transparency	N	n/a
Barriers to entry	N	n/a
Non-discrimination	N	n/a
Customer participation	N	n/a
Seamless markets	N	n/a
No limit on upstream competition	N	n/a

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).

Whilst outside the scope of the MPC, the consultation included a question on these arrangements (see attached Recommendation document, recommendation 12)

Further Information

Panel is requested to mandate MPC to prepare material to enable the consultations about this Change Proposal and CPW030 to be conducted and for MPC to return its recommendation about both proposals for consideration by Panel at its February meeting

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