

Marketforce Water 2017
‘Taking stock after a revolutionary year: what has changed since April?’
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Introduction

Good morning.

It’s a pleasure to join you today to talk about the non-household retail water market.

The market is the largest of its kind in the world, enabling 1.2 million business customers, from the smallest charities to the largest public authorities, to shop around for the best deal.

Who we are

MOSL, as you know, is the market operator of the non-household market.

During the preparations to open the new market, our primary responsibilities were to design, build and implement the central IT systems at the heart of the new market and to support the finalisation of the market codes by the Interim Code Panel.

We also played an important role in supporting water companies that were present at the time of market opening to ensure that they were all ready.

A little over a year ago today, we had entered shadow market operation, where we would fully test the systems and processes for the first time.

I wasn’t there at that time, but I know from speaking to my colleagues what a gargantuan task it was to get to that stage.

This enabled us all to open the market on time six months later in April this year.

Earlier this week I was very pleased to welcome the Minister for water Thérèse Coffey to open our new offices at Monument.

The Minister mentioned that the non-household market was one of the few markets to have opened on time. It is very good to be a part of that.

Since market opening, we at MOSL have taken up our responsibilities as enduring market operator.

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

Where are we now?

Seven months since market opening there are 25 wholesalers, 23 national retailers, 12 regional retailers and two self-suppliers in the market.

There have been 11 new entrants since market opening. And there are several more new entrants going through the market entry process.

We seem to have no shortage of interest by companies in joining the market, including two who are expected to complete the market entry process imminently.

We have seen over 70,000 switches in total, representing 2.6 per cent of the 2.7 million supply points in the market.

We're seeing a customer preference for having a single retailer for both water and wastewater services.

Some water-only companies are therefore taking the opportunity to bring sewerage customers into their business at the expense of the incumbent water and sewerage companies.

We are processing financial settlement worth around £210 million per month.

In terms of the governance arrangements around the market, I am pleased to say that the industry code Panel has got stuck into its job.

The Panel has considered 24 code changes. It has also established 5 committees to look at specific areas of the market, such as the issue of trade effluent.

We have also established a new Digital Strategy Committee under MOSL governance to look at potential digital initiatives that could help to ease friction in the market and improve customer experience.

Our purpose

While we don't have a direct relationship with end customers, with those relationships being owned by retailers, we are committed to fulfilling our responsibilities in a way that enables the market to operate and evolve for the benefit of non-household customers.

So how do we do that?

It's something that we've been giving a lot of thought to in recent months.

Strategic Review and Business Plan

When I joined MOSL in June this year, one of the first things I did was to initiate a Strategic Review to better understand the services we provide and should provide in future, and our critical success factors in doing so.

Engagement with our members – the water companies operating in the non-household market – has been a key part of this process.

Our members told us that they want us to be lean and efficient, particularly in the context of the external challenges they face.

However, they also expect their market operator to be agile enough to recognise and act upon areas where we can add value to the market as a whole and, ultimately, to end customers.

That includes improving data quality, making the change process work more efficiently and reducing friction in the market.

I will talk about each of those in more detail a little later on.

In parallel to our Strategic Review, we have been working on our Business Plan and budget for 2018/19.

The Board has been delighted recently to put forward a budget for next year that incorporates an 18% reduction in our total membership charge compared to this year.

That's a very concrete demonstration that cost-efficiency is at the heart of everything we do.

At the same time, we will still be running new processes for the first time until August 2018, due to the various phases in the settlement cycle.

In a context where we are still learning, we need to ensure that we do not jeopardise the stabilisation of the market in the pursuit of short-term cost efficiencies.

Five key pillars

Our ability to build a successful market relies on us having solid foundations.

And those foundations are provided by what we refer to as five key pillars underpinning our Business Plan. They are: stabilisation, service, engagement, innovation and governance.

I will talk about each one in turn.

Stabilisation

Our first pillar is stabilisation.

Stabilisation means investing in our people, processes and systems so we have the expertise and agility to do things in a timely and accurate way.

Customers' trust in the market will largely depend on their experience switching and on the service they receive from retailers.

Our role here is to ensure that we have a reliable system and repeatable market processes to ensure that customers can smoothly switch from one retailer to another.

It also means having reliable and transparent reporting on market standards to help companies see where they can make improvements in respect of the service they provide.

These reports of course are complemented by Ofwat's own market monitoring and CC Water's complaint monitoring and reporting framework.

Our reporting is not limited to the service provided by water companies to their customers; it also includes the service provided by MOSL to its membership and the market.

Service

That's why service is our second key pillar.

We are focused on delivering high quality, reliable services that are compliant with the codes.

One of our key services is providing transparent information about the market.

We provide information about how water companies and how we ourselves as market operator are performing. We also provide information about market activity.

Since the summer, we have started making information about the market publicly available with our Quarterly Market Review and our monthly market charts.

This information will help to get the word out about the new market. We also hope that customers will have more confidence to switch through the fact that they can see others have done so already.

Seven months in, we have seen a variety of different players and business models emerging.

As I mentioned, we have seen over 70,000 switches, and with no operational issues to date. That's good news. But it doesn't end there.

It's important to remember that switching isn't everything.

Customers' renegotiating with their existing supplier is an equally important sign of engagement in the market.

And research from CC Water suggests that some customers are waiting to see how the first year of the new market goes before taking the decision to jump in and consider switching supplier.

As I said, the Minister for water Thérèse Coffey came to our office this week. In her speech, she said that the success of the market will not be judged only by switching numbers.

She added that Government will rely on having the right data to be able to evaluate whether the market is working and delivering for customers.

At MOSL we're looking at ways to build our reporting capability and tools to provide information and insight on key areas such as data quality.

We believe that improving data quality is essential to improve the end customer experience.

It will also enable better retailer tendering exercises, greater settlement accuracy and fewer disputes between companies operating in the market.

MOSL is committed to playing a proactive role to help address the issue of data quality.

We think it's an area where we can add real value.

But it isn't something that we can deliver on our own – it's going to rely on a collaborative effort from across the industry, which brings me onto the next key pillar: engagement.

Engagement

It's clear that delivering an effective and efficient market on behalf of customers cannot be delivered by any one party alone.

The milestone of market opening was only made possible by the community we built around the market, including a particularly effective collaboration between the public and private sector, with MOSL being the conduit between dozens of water companies on the one hand and our programme partners, Defra and Ofwat, on the other.

That successful partnership working will be just as important now that the market is open.

Ensuring the market delivers for customers will require all of us to continue to work together.

MOSL has a unique position at the centre of the market, and we want to leverage that by playing a key role in facilitating the resolution of issues in the market as they arise.

We know that there are issues now, just as we know that there will be issues in the future. We need to work on these issues from a central position.

Equally, where we see examples of best practice, including those that could deliver value to end-customers, we want to work with our members to encourage them to be adopted across the industry.

One specific example we're looking at right now is the question of bilaterals.

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 to look at solutions for greater uniformity and standardisation in this area.

Innovation

That brings me onto the fourth key pillar: innovation.

We believe that digital and innovation can help towards improving the market as a whole by easing market friction and reducing overall costs.

Our new Digital Strategy Committee has representatives from across the industry – wholesalers, retailers and self-suppliers – who are working to review and prioritise potential digital solutions that can help to reduce barriers and enable a smoother market operation.

They're looking at a number of different areas and ideas, such as bilaterals.

They and we will also be keeping a watchful eye on global trends in digital innovation to ensure we are ready to respond to emerging technologies.

One obvious example is blockchain. This is a technology that may lead to a completely different transaction architecture across the market in the years to come.

It's being used in some pilots by utility companies, particularly in the energy sector, so we want to keep an eye on its development and the potential for its adoption.

These are big questions, and our approach is to enable the industry to come together through the various forums we run to share ideas.

Governance

Innovation is one part of delivering an efficient, effective and evolving market, but another very important part is appropriate governance arrangements that enable market change – governance being the fifth and final pillar.

We recognise the resource demands and complexity of the change process currently.

That's why we believe that being a proactive facilitator of the market governance arrangements will help to deliver a smoother market operation.

It will also enable MOSL to deliver value for its members and to evolve the central system they have invested in.

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

We will also continue to work with our friends and colleagues in Scotland and at Ofwat and Defra with respect to the code requirement for a “seamless customer experience” between the English and Scottish retail markets.

And that of course will have a big impact for multi-site customers with sites in both markets, and retailers operating in both markets seeking to reduce complexity and costs.

Conclusion

We at MOSL are committed to do all we can to ensure that the market operates and evolves for the benefit of non-household customers...

... and we will meet that commitment by putting cost-efficiency at the heart of all we do.

Of course, in a context where we are still bedding in new systems, new processes and new ways of working, it is critical that we do not jeopardise the stabilisation of the market.

Stabilisation is the golden thread underpinning our plans for year ahead, giving us the foundations upon which to move forward to improve the market...

... supported by opportunities provided by digital and innovation as well as close collaboration and coordination with our members and stakeholders; many of whom join us in the room today.

I look forward to all that we have to achieve together over the coming years.

Thank you.