

## Meeting Note

# Market Performance Committee Meeting (MPC01)

24<sup>th</sup> May 2017 | 10:30 – 15:30

Held at Holborn Bars, 138-142 High Holborn, London, EC1N 2NQ

Status of the Minutes: Final

### MEMBERS PRESENT

Nigel Sisman	NSi	Chair	Nicola Smith	NSm	Retailer Committee Member
Jo Dando	JD	Retailer Committee Member	Katy Spackman	KS	Retailer Committee Member
Don Maher	DM	Wholesaler Committee Member	Jesse Wright	JW	Wholesaler Committee Member
Natalie Round (née Tanner)	NR	Wholesaler Committee Member	Claire Yeates	CY	Retailer Committee Member
Nick Rutherford	NR	Alternate Wholesaler Committee Member			

### OTHER ATTENDEES

Stephen Beddoes	SB	Ofwat representative	Lauren Mulholland	LM	Presenter (MOSL)
Elliot Bird	EB	Meeting Secretary (MOSL)	Michael Robertson	MR	Presenter (MOSL)
Rebecca Mottram	RM	Presenter (MOSL)			

### APOLOGIES

Simon Bennet	Committee Member (Wholesaler)
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## 1. Welcome and Introductions

### **Purpose: For Information**

- 1.1. The Chair began by welcoming the members of the Market Performance Committee (“Committee”) and delivering an opening message, informing the Committee of the challenging workload ahead.

## 2. Market Performance Overview

### **Purpose: For Information**

- 2.1. MOSL presented its perspective on the Market Performance Framework (see MPC01 presentation file).
- 2.2. The Committee discussed the Market Performance Framework (CSD 0002), and the objectives and the principles as set out in the market codes.
- 2.3. Committee Members discussed the importance of making sure the performance monitoring process is proportionate and efficient, and to make sure it does not generate unnecessary costs to Trading Parties.
- 2.4. The Committee acknowledged that its work should focus on performance measures associated with activities which potentially might have an adverse impact on the orderly operation of the market and/or on the accuracy of the settlement process.
- 2.5. MOSL explained to the Committee that it would be required to come to a judgement on which performance measures should feature in the framework, their scope and level. Furthermore, the Committee would be expected to make a recommendation to Panel as to whether financial penalties should apply, and if so, in respect of which measures. Another consideration would be whether these financial incentives should be implemented in year 2 of the live market.
- 2.6. The Committee was provided a brief update from MOSL on market switching data.
- 2.7. The Committee discussed the need for ensuring that underperformance is communicated to the Contract Managers in companies, before it is escalated to CEOs. MOSL explained that Portfolio Managers will continue to engage with Trading Parties to understand performance and it is currently reviewing its engagement process.
- 2.8. A Committee Member questioned whether the Peer Comparison Reports are a misnomer because information presented in them is typically not comparable between companies. The Chair explained the Committee should be careful about what conclusions were drawn from these reports, especially during this transitional period when diverse behaviours associated with upload of data might render comparisons between companies unreliable from a market or operational performance perspective.

## 3. Ofwat’s Market Monitoring Framework

### **Purpose: For Information**

- 3.1. A representative from Ofwat attended the meeting and presented its insight into its market monitoring framework ambitions and how it intends to use market performance data (see MPC01 presentation file).

- 3.2. Ofwat informed the Committee that Ofwat's key focus is to protect customers and make sure they are not treated unfairly. More broadly, Ofwat will also have a low tolerance policy for behaviours that undermine trust and confidence in the market.
- 3.3. The Ofwat representative described the 4 sources of data it would use in its market monitoring. These are: The Central Market Operating System (CMOS) data; Retailer data submissions; CCWater's customer reporting; and Ofwat's own communication with customers.
- 3.4. The Committee enquired whether it would be possible to present customer data in future, rather than SPID data, as SPID data is very difficult for those outside the water industry to interpret. MOSL and Ofwat both recognised the benefits of providing customer data, however CMOS includes SPID and premise data and not customer data. The Committee noted the challenges of reporting on a customer basis recognising that this would not be possible in its early work.
- 3.5. Ofwat advised that an annual state of the market report would be published in July or August next year.
- 3.6. The Chair encouraged Ofwat to be more than an observer in the MPC meetings to ensure the best possible communication, coordination and efficiency in MPC's work. Ofwat's participation should minimise duplication of effort and possible conflicts between MPC and Ofwat conclusions.

## 4. Role of the Committee and Interactions with the Panel

### **Purpose: For Discussion**

- 4.1. MOSL presented and explained that the Committee was established to support the Panel in fulfilling its obligations in terms of Market Performance (see MPC01 presentation file).
- 4.2. It was noted that the Panel had requested the Committee to comment and provide feedback on its working draft Terms of Reference (ToR). It was explained that as part of this working draft the Panel has delegated workload to the Committee and not decision making power, therefore the Committee is required to provide the Panel with recommendations to aid their decision making. The Committee agreed that it would aim to deliver a revised ToR based on experience of its first few meetings. The aspiration would be to review all Panel and MPC obligations in respect of the Market Performance Framework to ensure that everything is addressed and that there is clarity about responsibilities allocated to Panel, MPC and MOSL. The Committee also noted that any revised ToR would need to be agreed by Panel.
- 4.3. A Committee Member raised a concern that the current process could cause delays in making decisions and progressing potential Change Proposals. MOSL recognised this as an issue and advised that the timescales for year 1 activities that would be presented later in the meeting took this process into account.
- 4.4. The Committee agreed that instead of the MPC secretary producing Headline Reports and Minutes there should be a draft Meeting Note produced in respect of each MPC meeting. This draft Meeting Note would be published. However, meeting participants should aim to respond with any material feedback about omissions or errors as a matter of urgency rather than wait to provide feedback at the next MPC meeting. The Meeting Note would be formally adopted at the next meeting.

- 4.5. A Committee member asked whether there was an obligation for the Committee to go through each Market Entry Assurance application. MOSL made it clear that the Committee would only be concerned with the Market Entry Assurance process and its efficiency, not the applications themselves.
- 4.6. The Chair asked that Committee Members to remain as independent and objective as possible, following the same principles as if they were members of the Panel.

## 5. Year 1 Activities

### **Purpose: For Information**

- 5.1. MOSL presented a timeline that indicated what would be required in the first year (See MPC01 presentation file).
- 5.2. The presentation at the meeting suggested that the Committee would need to make a recommendation on underperformance. A Committee Member asked what was meant by underperformance and whether it was defined in the Market Arrangements Code (MAC). The MOSL representative clarified that this element of the presentation related to the identification of underperformance which would trigger the use of the performance rectification processes. MOSL are working behind the scenes on this and the process might include initial discussions to clarify and understand data which might imply underperformance via Portfolio Manager discussions with Trading Parties.
- 5.3. A Committee Member requested clarity on performance rectification plans and when they would be enacted. The MOSL representative clarified that MOSL was not currently looking to enact any rectification plans, and it should only be used as a last resort. MOSL added that it would always look to resolve these issues bilaterally before enacting the rectification plan.
- 5.4. The Committee opened an action to put together proposals on the definition of underperformance and declining performance for the Committee's review.

### **ACTION 01\_01**

- 5.5. It was noted that the review of Market and Operational Performance Standards would be a significant challenge given the very tight timescales defined in CSD002. Specifically, beyond the review of scope and level of the performance standards, the Committee will be required to recommend whether to begin charging based on Market Performance Standards at the start of Year 2, and as such a review of the standards by the MPC is required before consulting with Trading Parties in October 2017.
- 5.6. To support the Committee's role in reviewing the Market Performance Standards, it was suggested that MOSL take some time to review the standards used in Scotland and how effective they have been, whilst also recognising that Scotland's market is considerably different to the English market.
- 5.7. The Committee asked if Change Proposals were raised to the Market Performance Standards whether the Committee would be informed noting the risks of confusion and inefficiency. It was explained that it was the Panel Secretariat's role to maintain communication between the Panel and the Committee, and it would be ensuring that the Committee has sight of information sent to the Panel that is relevant

to them. Furthermore, it was noted that the MPC was comprised of experts in the market performance area and that if a Change Proposal was raised in that area it would be likely that the Panel would refer the matter to MPC for MPC assessment and recommendation.

- 5.8. The Committee asked what MOSL's plans were in terms of their own performance reporting. The MOSL representative stated that it is currently reviewing its performance reporting and will provide an update to the next Committee meeting.

**ACTION 01\_02**

- 5.9. The Committee discussed potential criteria to support the review of the Market Performance standards. During this discussion 7 elements for consideration were suggested:

- Should the standard be removed (i.e. is it a useful measure)?
- Should the standard be modified (i.e. are the SLA and measure reasonable)?
- Should the standard charge be modified or removed (i.e. is it reasonable and effective)?
- Should the credit classification be modified (i.e. retailer credited or MO credited)?
- Should the standard charge come into effect on 01 April 2018?
- Is the charging cap reasonable and effective (i.e. should the cap be changed or should a cap be applied to retailer credited charges)?
- Are there any additional standards or charges that should be added (including retail OPS standards)?

- 5.10. Committee Members discussed whether the Committee review should be of both the Operational Performance Standards (OPS) and the Market Performance Standards (MPS). A Committee Member argued that OPS were less useful given reduced standardisation in reporting definitions as Trading Parties elected what to report on. Another Committee Member noted that the OPS currently only address one side of the wholesaler/retailer process. Another Committee Member noted that the urgency associated with the enforced deadlines would help focus minds and ensure that at least some consideration should be given to both sets of standards.

- 5.11. There was a suggestion from a Committee Member that it is the overall end-to-end business processes that are more important than individual component parts of the process. The review could therefore focus on the most important business processes such as meter reading, switching and new connections.

- 5.12. The Committee requested that MOSL develop a template and proposed structure for reviewing the Market Performance Standards, as an action.

**ACTION 01\_03**

- 5.13. The Committee noted that it would be under considerable pressure to deliver the standards review work during this calendar year. One Committee Member wondered whether extra meetings should already be scheduled for the first phase of the activity. The Committee committed to work between

meetings to minimise the requirements for additional face-to-face meetings beyond the currently scheduled monthly meetings, and to allow for web calls or conference calls as alternatives where possible. To this effect MOSL agreed to publish material no later than 10 days ahead of MPC02 to enable preparation for that meeting or for the identification of material issues to the MPC secretary ahead of the meeting.

## 6. Market Performance Standards (MPS), Operational Performance Standards (OPS) and Underperformance

### **Purpose: For Discussion**

- 6.1. MOSL demonstrated the April Market Performance Standards peer comparison report
- 6.2. Committee Members explored the challenges associated with interpreting the data. The Committee noted that companies had widely varying numbers of SPIDS and transactions compared to one another. Therefore, careful thought needs to be applied to draw useful insights associated with apparently very different levels of performance. This was recognised by MOSL who clarified that the intention of the data is intended for cross company comparisons, and that the name, peer comparison report, may be misleading given diversity amongst Trading Parties.
- 6.3. A Committee Member asked whether the assessment of the performance standards will ever be automated by CMOS. The MOSL representative clarified that this was the intention.
- 6.4. A Committee Member enquired whether there would be a single league table of companies against the Market Performance Standards. The Committee Member thought it could possibly be useful to Trading Parties. The MOSL representative stated that this was a consideration although it was sometimes difficult to construct a meaningful ordering even for a single standard given diversity in activity levels. Constructing a single league table would require a weighting factor to be applied to each standard and it would be challenging to find an objective way of doing this. MOSL made it clear that there was no intention to make any value judgements on company performance, which was also emphasised by Ofwat.
- 6.5. It was suggested by a Committee Member that there should be some trigger point on the Market Performance Report to indicate when a Performance Rectification plan might be initiated. The MOSL representative explained that there was currently no intention to have such a trigger point, and underperformance was an area to be discussed at a future meeting.

## 7. Any Other Business (AOB)

### **Purpose: For Information**

- 7.1. An action was raised for MOSL to amend and circulate the slides presented by MOSL at the meeting to Committee Members.  

**ACTION 01\_04**
- 7.2. There was no further business and the Chair closed the meeting.

## Actions:

- A01\_01** MOSL to develop proposals on the definition of underperformance for the Committee's review.
- A01\_02** MOSL to provide an update on its own performance reporting in the next meeting.
- A01\_03** MOSL to prepare a template and proposed structure of the Market Performance Standards to be reviewed at the next Committee meeting.
- A01\_04** MOSL to amend and circulate slides presented in the meeting with the meeting note.

The next MPC meeting is scheduled for: **28<sup>th</sup> June 2017, 10:30 – 15:30, at:**

**Holborn Bars**  
**138-142 High Holborn**  
**London**  
**EC1N 2NQ**

**The nearest tube stations are Chancery Lane, Farringdon and Holborn.**