

market focus

MOSL
MARKET OPERATOR SERVICES LTD

Welcome to our March edition of *Market Focus*, providing a monthly update on MOSL activities.

Happy two year anniversary!

This April marks the second anniversary since the opening of the water retail market on 1 April 2017 and as we head into its third year, we would like to recognise the hard work and commitment of the industry in reaching this milestone.

The success of the market is dependent on the industry working together to drive continuous improvement. Identifying and resolving the biggest market issues is a key focus for MOSL in 2019/20. This year we are delivering a number of initiatives to effectively improve market performance and drive change. Our ambition - to operate a competitive market for the benefit of customers - is at the forefront of everything we do.

We look forward to continuing to work with the industry in achieving this ambition.



Market Improvement 2019/20



As we move towards the end of this financial year, and mark two years of the open water retail market - driving market improvement remains a key focus for MOSL in 2019/20.

We are continuing our focus on improvement work with trading parties and governance groups against the Market Performance Operating Plan (MPOP), which we published in early 2018, and are making sure that we continue to build on the robust, ambitious market improvement programme for the coming year and beyond.

In terms of current activity, improving data quality remains a top priority. In particular, the completeness and accuracy of consumption data that underpins

wholesaler-retailer settlement and customer billing. As at the end of February, the percentage of meters for which no meter read data has been received for more than 12 months now stands at 14.8 per cent.

This represents a small month-on-month improvement, however remains well above MOSL and trading parties' planned levels. More encouraging progress has been made in improving the data for meter reads which need to be estimated - with over 200,000 Yearly Volume Estimate (YVE) values now having been updated by retailers since the initiation of the data improvement plans. Although rates of progress have started to slow, wholesalers have also made notable improvements in relation to pairing supply points since the baseline was set, with around two-thirds of the original list now resolved.

In addition to data improvement activities, Ofwat recently approved the introduction of charging for underperformance against the Operational Performance Standards (OPS). This change to the OPS, which are the primary

measure of wholesaler performance in service delivery to retailers, will come into effect in April 2019.

Looking ahead to April and beyond, this week we issued a consultation to trading parties, on a review of our MPOP improvement plans for 2019/20. We welcomed feedback on the approach taken with the first iteration of the MPOP and are keen to ensure that our forward-looking plan builds on its success, as well as lessons learned from experiences to date. Taking account of trading parties' feedback, we will focus our efforts on a portfolio of projects that will continue to improve data quality, as well as develop the incentives, measures and enablers that underpin a well-functioning market.

The finalised MPOP will be published at the start of May following publication in April of our second Annual Market Performance Report (AMPR). The AMPR provides a review how the Market Performance Framework (MPF) has helped to mitigate market risks and any recommended changes to the framework required.

Market charts

We have now published our market data charts for February on the [MOSL website](#). These provide key information about the non-household retail water market, including switching rates and aggregate settlement values.

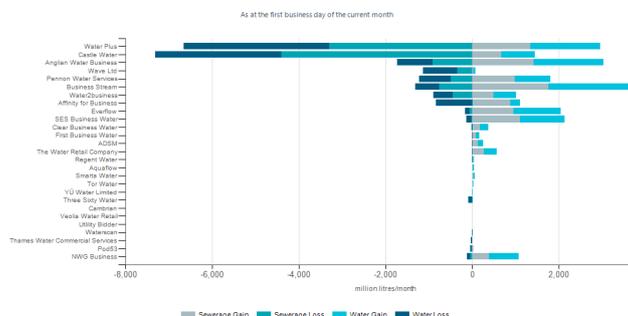
In February there was a total of 216,965 switches, representing 8.2% of the 2,631,797 supply points in the market.

The number of switches in February, at 6,532, was considerably lower than the number in January (9,073), representing a 39 per cent decrease.

Although this is a significant drop month-on-month, it is still within general trends we have seen in the market over the longer term. We would expect switching levels to increase again in the coming months.

Everflow and Water Plus had the highest number of switching gains in terms of supply points, with Business Stream and Castle Water having the highest gains in terms of consumption.

The majority of switching behaviour continued to be a straight switch of both water and sewerage from a single retailer to a new retailer, which accounted for 64 per cent of all switches. Overall, Water Plus and Castle Water retained the largest share of supply points.



Change proposal updates

On 28 February 2019, [CPW055: 'Wholesale Retail Code inconsistency'](#) was implemented into the market codes. CPW055 addresses the identified inconsistency between the Market Terms and Business Terms with regard to invoicing based on reports provided by MOSL following post RF and dispute settlement runs.

On this same date, Ofwat approved the implementation of change proposals [CPW049 & CPM012: 'Operational Performance Standards Review'](#). CPW049 & CPM012 seek to amend the Operational Performance Standards (OPS) framework to introduce charging for missed key performance indicators (KPIs) and to provide greater standardisation of reporting. These change proposals will be implemented on **1 April 2019**.

Credit Committee update

Following Ofwat's review of credit arrangements in the water retail market which was undertaken by KPMG last year, the Panel set up the Credit Committee to take forward Ofwat's recommendations. These recommendations, which are described as proposals, consist of:

- ◆ Proposal 1: Ensure greater transparency of Parent Company Guarantees (PCGs) and alternative credit arrangements
- ◆ Proposal 2: Reflect payment history to access an Unsecured Credit Allowance (UCA)
- ◆ Proposal 4: Clarification of credit assessment scores
- ◆ Proposal 5: Review of termination, default and interim supply processes.

The Credit Committee has put together two change proposals for Proposal 1.

- ◆ [CPW052: 'Improving the transparency of alternative credit arrangements'](#) – this proposal requires that wholesalers notify Ofwat and MOSL of their existing and future alternative credit arrangements, to be published on the MOSL website. CPW052 is still awaiting Authority decision.

- ◆ [DCP016: 'Improving the transparency of credit guarantee arrangements'](#) - this proposal seeks to improve the level of transparency of PCG arrangements between wholesalers and their retailer subsidiaries. Retailers will be required to provide MOSL with details of their guarantee and a declaration of assurance that the guarantee has been provided on an arm's length basis and they have sent Ofwat the requisite information to determine the full costs and other aspects of the guarantee. This is due to be considered at the Panel Meeting this month.

The Panel recently sent out two Requests for Information (RFI) on draft change proposals; [DCP019: 'Clarifying credit scores and ratings for the purpose of Unsecured Credit Allowances'](#) and [DCP020: 'Unsecured Credit Allowance reflecting payment history'](#).

DCP019 seeks to amend the process by which retailers provide credit assessment scores and ratings to wholesalers for determining their Unsecured Credit Allowances (UCAs). DCP020 seeks to introduce a route for new entrants and established retailers to gain an Unsecured Credit Allowance.

Responses to the RFIs can be submitted via the [online consultation forms](#). Responses will be considered at the Committee's April meeting, with a view to recommending to the Panel in May. The deadline for submitting responses is **5pm on 21 March 2019**.

Bilaterals update

At February’s Board meeting, we reported to MOSL Board members the current progress of the bilaterals project, including analysis of the information gathered, to-date, through the Request for Information (RFI) to trading parties and through engagement at regular industry events.

We are aware, as members will be, that there is no single view of this market wide issue. However, we strongly believe, on evidence, it is vital that we work with industry to continue to drive for a solution to reduce bilaterals friction in the market and ultimately improve the overall customer experience.

The MOSL Board agreed with this approach and our ongoing commitment to establish a viable solution to more efficient bilateral arrangements.

To progress this, our next step is to agree a robust framework for understanding, managing and implementing the required code changes and identify the extent of the impact on trading parties’ system integration.

As part of this work, last week a number of MOSL colleagues met with Ofwat to provide an update on the progress of the project, the agreement of the MOSL Board and work done to-date.

Ofwat recognises, as does MOSL, that amongst other challenges, implementing such a solution will require a significant amount of change to the market codes. By engaging Ofwat at his stage, we can better understand their position and their support for driving forward with the bilaterals project. The market has not faced a panoptic change of this scale since the opening of the market in April 2017. As we approach the two-year anniversary of market opening, it’s a timely reminder to recognise that to drive improvement in the market and to reduce friction and increase transparency, it’s necessary for the market to continue to evolve. We can all agree that careful engagement with the Panel and industry is required, not only to fully understand the challenges and opportunities available through the introduction of centralised bilaterals solution, but also to maximise the potential for its success.

At the meeting with Ofwat, we discussed the various routes to identifying and implementing the right solution and will look at these in greater detail ahead of a follow up meeting at the end of March. We are pleased that Ofwat is in favour of industry self -regulation and appreciate the importance of bilaterals to improve the efficiency and dynamism of the market.

Considering its importance, we are keen to maintain the momentum of the bilaterals project. We look forward to our continued engagement with the market and the ongoing collaboration with Ofwat, the Panel and trading parties to agree on the best way to move forward with an industry-wide solution.



Panel updates

At the end of February, we were pleased to welcome Panel members to Southampton for their first meeting in our new office.

A number of newly-elected Panel members were able to attend in person, with some dialing into February’s meeting. New Panel members will also be attending the next meeting, to familiarise themselves with their new role in taking the industry forward, prior to officially taking up their seats in April. They will also be engaging with the Panel Secretary to understand more about Panel functions and roles and responsibilities.

During the Panel meeting, Ofwat shared its concerns on the redistribution of Market Performance Charges (MPS). The Market Performance Committee (MPC) agreed to commission a piece of work by independent consultants to address these concerns and recommend new proposals to Ofwat by October.

The Panel has recently updated its Panel Plan, which was

published last September, and will be carrying out a strategic review of market priorities, which will be used to set objectives and priority areas for the coming year. The Panel also reviewed a number of potential changes to its governance process arising from the workshop held in January. These will look to make the Panel more efficient in its decision making; adopt best practices for code governance and put customers at the forefront of its planned priorities.

In response to the Panel and Ofwat’s concerns over delays to changes being approved and implemented, an additional CMOS release, Release 6.5, is planned for July 2019 to allow two changes to be implemented ahead of Release 7.0 in November. MOSL recently consulted with industry on its CMOS release strategy to assess trading parties’ capability to implement change. Feedback from this consultation will be used to shape the future release programme.

CMOS transactions (all interactions by trading parties e.g. switches, meter readings etc)

February
total was
2,306,958

from the 2,306,958 total, approx.
24% = trading parties
76% = MOSL

Diary dates

In case you missed it here's some key dates taking place at MOSL



19 March	Credit Committee Meeting	27 March	MPC Meeting
21 March	User Forum	1 April	Two year anniversary - Market opening
26 March	Future of Utilities conference	10 April	ORWG meeting

News in brief

TDC nominations

The Trading Disputes Committee currently has two vacant retailer seats after recent resignations. If you are a retailer and would like to be considered, please submit a completed [nomination form](#), which is available on the MOSL website, by 5pm on Friday 22 March 2019. Further information on the TDC is available on the [Panel Committees](#) page of the MOSL website.

TEIC nominations

The TEIC is coming back for a second tenure thanks to positive feedback from trading parties. Nominations are ongoing to fill the vacant seats (one wholesaler and two retailers) with the deadline for submitting a nomination, on Thursday 14 March. The TEIC will focus on looking at issues raised in the Trade Effluent Training Workshop held in November 2018.

FutureRetail#2 conference

Yesterday, our CIO, Samir Rahim, was speaking at the second annual FutureRetail#2 event, where he joined hundreds of industry leaders to look at future innovations in the utilities sector.

During his session - 'Optimising bilateral transactions to deliver improved customer experience' - he talked through problem statements identified by industry as key areas causing friction in the market and the steps MOSL has taken to understand the impact caused by poor bilateral arrangements and what needs to happen in driving the solution forward.

He also joined a panel session to discuss and answer questions from the audience on improving wholesaler-retailer relationships.



Future of utilities conference

On 26 March, our interim CEO, Des Burke, will be speaking at the Future of Utilities event in London. The two-day event brings together industry leaders from across energy and water to look at critical issues facing the utilities sector.

As we fast approach the two-year anniversary since the opening of the water retail market, Des will be speaking on 'Driving change in the water market for the benefit of customers'. In particular, looking at the biggest issues affecting the market; how we can drive better performance and behaviours; and the current governance processes and future pace of change. Des will also join a Panel session reflecting on the progress of the market to-date and what's next for the industry in 2019/20.

We look forward to seeing our members at the conference and hearing their views on how we can continue to work together to improve the market in its third year and beyond.

Feedback

We welcome your comments and suggestions on the content of the monthly *Market Focus* update.

Please email the [MOSL communications inbox](#) with any comments.