

Market Improvement Strategy

June 2018

1. Our strategy

Our purpose is to provide the infrastructure, information and governance services effectively and efficiently to enable the competitive water retail market to operate and evolve for the benefit of non-household customers.

Successful achievement of our purpose will rely on our ability to identify, highlight and resolve market issues to drive market improvement. This is the purpose of our Market Improvement Strategy.

This document sets out our strategic goals for market improvement and the approach we will take to achieve our objectives. We believe we have a key role to play in facilitating discussions and improvement efforts between trading parties, the Panel and its Committees, the regulator and other stakeholders to deliver benefits for the end customer. Through implementing our Market Improvement Strategy, we will provide the market insight, support and challenge that is needed to drive better market outcomes.

Strategic goals for market improvement

We aim to improve the market by:

- ◆ Reducing friction in the market and enabling the market to operate efficiently; and
- ◆ Promoting effective competition.

These goals form part of the initiatives set out in our [2018/19 Business Plan](#).

Focusing on outcomes

Our Market Improvement Strategy is focused on achieving outcomes and delivering results for the market, trading parties and end customers. Focusing on the impact that market performance, market arrangements, data quality and behaviours have on overall market outcomes will provide insightful and actionable information to the market which, combined with effective engagement, will drive meaningful market improvement.

Through ongoing analysis of market activity and our engagement with trading parties and other stakeholders, we have identified and mapped desired market outcomes against our strategic goals.

Strategic goal	Targeted market outcomes
Reducing friction in the market and enabling the market to operate efficiently	Enabling efficient switching
	Enabling efficient financial settlement
	Improving trading party experiences
	Mitigating potential future market friction
Promoting effective competition	Ensuring all customers can access the market
	Ensuring an equitable and effective market for retailers ¹
	Ensuring the market arrangements are proportionate

We will prioritise the market outcomes we target based on the extent to which they create friction or enable effective competition in the market. These market issues will be identified, monitored and reported on as set out in Section 2.

The Panel is developing its own Panel Plan for 2018/19 and we will continue to engage with the Panel, Market Performance Committee and trading parties as we develop our Market Performance Operating Plan (MPOP) for this year. Alongside our work on market improvement, the Digital Strategy Committee will set out its plan for assessing the opportunities and digital initiatives to support market improvement.

Details of what can be expected from the MPOP are set out in Section 4 of this document.

Key principles

There are five key principles which reflect our overarching strategy and underpin our market improvement strategy:

◆ Enabling self-regulation

The market should have the opportunity to regulate itself prior to the initiation of formal resolution processes or regulatory intervention.

¹ The title of this outcome has been updated as of October 2018 to align with version 1.0 of the Market Performance Operating Plan. The remainder of this document remains unchanged as per the June 2018 version.

◆ **Prioritising outcomes**

Market improvement must be focused on improving overall market outcomes. All activities will be prioritised to ensure that the greatest levels of friction and the most ineffective areas of competition are being addressed.

◆ **Leveraging our central market position and expertise**

The skills and experiences of our people combined with our access to central market data will be used to bring expert solutions to the market, drive improvement and evolve the market arrangements.

◆ **Proactively pursuing improvement**

We will seek to identify market risks in advance of them becoming issues to enable trading parties to actively mitigate risks and maintain the stability of the market.

◆ **Championing market evolution**

We will challenge the status quo and seek to improve and evolve the market, especially where this benefits the end customer.

2. Assessing friction in the market and constraints to effective competition

We will use our central market position, knowledge and expertise to analyse where there is friction in the market or constraints to effective competition. Our people will harness the power of the market dataset and the experiences of those operating in the market to understand where improvement would have the greatest market benefit.

Understanding market experiences

To understand how the market is evolving and maturing, we log, categorise and monitor market risks and issues to provide an understanding of current and potential future areas of friction in the market and/or constraints to effective competition. This will enable us to target our market improvement activity to deliver the greatest value for the market.

Trading parties have vast experience and understanding of the issues that impact them. To enable us to better understand these issues, we will complement our engagement activity with a market issues process whereby

trading parties can submit digital forms to flag issues. These will be a direct input into the prioritisation of our market improvement activity. In parallel, we will work with the Panel and its Committees, the Market Auditor, Ofwat, CC Water and other stakeholders to identify key areas where the market should seek to improve.

Taken together, these activities and processes provide a rich source of information on how the market is performing. MOSL will track and monitor market issues, and work collaboratively across the market towards their resolution. Priority will be given to those issues assessed as having the greatest negative impact or potential impact on the market.

Prioritising market improvement

Each targeted market outcome may have multiple causes of friction or constraints to effective competition. To understand the relative impact of one market issue to another, we will assess the impact of issues at market outcome level. This will enable us to effectively prioritise and sequence our market improvement activities to deliver the greatest benefit to the market.

Market level issues are likely to be a combination of factors relating to market performance, market arrangements, data quality and behaviours. The nature and causes of the market issues will influence the tools and forums which MOSL uses to affect improvement.

3. Routes to improvement

Our approach to market improvement is both progressive and proportionate and will provide the market with the opportunity to self-regulate whilst ensuring that the market is continuing to improve and evolve.

A seven-step approach

We have developed a seven-step approach to market improvement. Central to this is a belief that the market itself can drive improvement and that formal intervention by governance groups (i.e. the Panel and its Committees) or the regulator should be a last resort. Adopting this approach will provide structured resolution to market issues, with a clear path for escalation to ensure market improvement over time.

This approach is entirely focused on delivering results and there is no fixed time for escalating from one step to the next. The time we invest in each step and the tools we apply (see Appendix) will vary based on the severity of the issues and the level of market improvement we are observing.

We will enable the market by:

1. Raising awareness

Ensuring trading parties are aware of market issues through transparent reporting and proactive engagement to encourage resolution.

2. Promoting best practice

Supporting trading parties by providing guidance, encouraging debate or hosting training to facilitate resolution, based upon market best practice.

3. Developing solutions

Leveraging our central market expertise to develop solutions with the market and actively support resolution.

4. Incentivising resolution

Proactively sharing information, e.g. peer performance league tables, externally and/or with trading parties' senior management to help incentivise resolution.

5. Ensuring resolution

Administering the formal performance resolution process or proposing code changes to ensure resolution.

6. Escalating to market governance groups

Escalating formal performance resolution to the market governance groups to enforce resolution.

7. Targeting market audit

Increasing the depth of the market audit scope to provide third party challenge to govern resolution.

We will monitor and track market improvement at the market outcome level to understand and provide the market with visibility of market improvement or market stagnation. Market outcome dashboards will provide an overview of prominent market issues, their impact on the market and the pace of improvement. The information provided via these dashboards will enable trading parties to better understand and improve their performance.

4. A planned approach

Each year we will publish our MPOP, setting out our detailed market improvement activities for the year ahead. In these plans we will map the market risks and issues and their contributing factors to the market outcomes. The MPOP serves as the implementation plan for our Market Improvement Strategy and will enable us to prioritise issues causing the greatest level of friction and constraints to effective competition.

Our plans will evolve as market issues are resolved and other issues materialise. Our identified route to improvement will include the monitoring, reporting and escalation steps required to achieve and sustain the targeted market outcomes.

For 2018/19

In the first year of the market we have identified early signs of friction and potential constraints to effective competition through our own analysis, engagement with trading parties, the market governance groups and the market auditor. Market issues have resulted from:

◆ Data quality

Inconsistent and incomplete market data, primarily relating to customer and supply point information, has created challenges for customer identification and switching, and financial settlement.

◆ Market performance and trading party behaviours

The timeliness and accuracy of meter reading has caused some volatility in settlement and challenges in the customer switching process. A lack of consistency around wholesaler service levels has created challenges for retailers in delivering for their customers.

◆ Market arrangements

There were no financial incentives placed on wholesalers or retailers to improve their performance during the year. Also, credit terms have created challenges for some retailers to compete across wholesale areas.

In our 2018/19 MPOP we will map these market issues and other market risks to the market outcomes and set out our plans for driving market improvement in the year ahead.

Our first MPOP will be published in July 2018.

Appendix – The seven steps in practice

Below we set out some of the tools we will use in implementing our market improvement approach. This framework gives an indication of the likely tools and approaches we will look to use. It is not intended to be exhaustive nor is it intended to be indicative of the exact process through which each issue will be addressed.

Discussion with trading parties through our Portfolio Managers						
Issuing market communications	Presenting to the User Forum	Leveraging our expertise				
Publishing market reports and or charts	Issuing guidance	Working with the User Forum	Publicly publishing peer comparison information	Initiating Performance Resolution Process	Escalating to the Market Performance Committee	
Providing peer comparison information (for members only)	Hosting training	Developing technical solutions with the Digital Strategy Committee	Writing to trading party senior management	Proposing code change	Escalating to the Panel	Market auditor deep-dive

1. Raising awareness	2. Promoting best practice	3. Developing solutions	4. Incentivising resolution	5. Ensuring resolution	6. Escalating to market governance groups	7. Market audit
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Monitor, report, review


