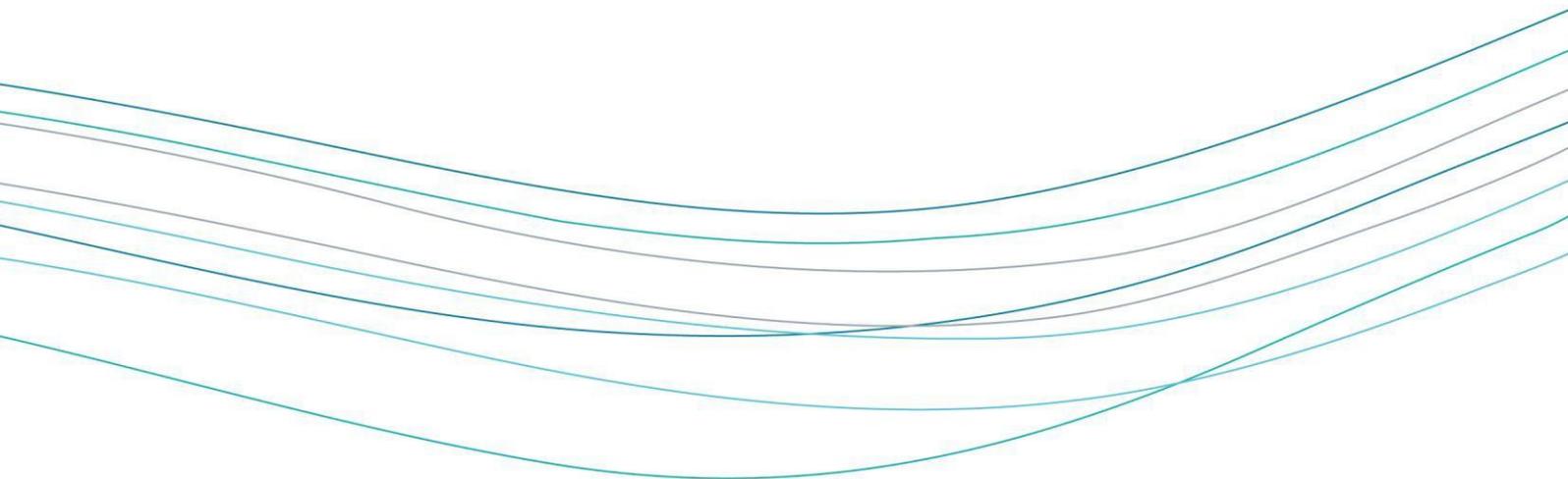


CEO Forum: Priorities for MOSL's 2019/20 Business Plan

Chris Scoggins



CEO Forum presentation

1. Introduction

Thank you, Jim.

And thank you, to all of you, for making time to join us today.

As Jim said, this is a critically important opportunity for us to discuss where MOSL should focus our resources during the period of our next Business Plan.

As market operator we have a privileged view of the market and the broader context in which we operate. I thought it might help set the scene for our discussions if I shared **my** sense of where we are and what needs to come next, from that vantage point.

The prize and The Challenge

In a nutshell there is a big prize to be seized, but there are serious obstacles we together need to dismantle if we are going to seize it.

I see a graphic image for this, as I walk into our office which is next to the Monument to the Great Fire of 1666.

[Slide change – Monument]

At the base there is a long Latin inscription carved into stone. The translation –on a brass plaque below it - ends with a proud comment about how quickly London was rebuilt, and the Monument built, after the Fire.

It says:

“We have achieved in three short years what many thought would be the work of a lifetime.”

An obvious read across there, to the water retail market. That would be some prize if we can say that about the retail water market when we get together next year.

Some prize - but we all know there are big and immediate challenges we must resolve.

A critical twelve months ahead.

There is absolutely no question that the coming year will be **critical** for the water retail market.

[Slide change - Achievements]

Much has been achieved since the market opened what seems like five years ago, but in fact is just 18 months. And we shouldn't underestimate that progress.

[Slide change – Issues we face]

But - I don't have to tell you that there are still major issues where the market needs to do much better and **SHOW** it is doing much better, if this is going to be the **efficient, low-cost** and **attractive** market we all want, a market that really **engages** customers.

Issues like data quality, retailer wholesaler interactions and levels of customer service are impacting returns, **hampering** innovation and **damaging** confidence in the market.

We know too that many of these issues are deep rooted and are about the bedding in of a disruptive new market in a long-established sector.

We have seen that resolving them has not been simple, and we will **all** have views about why that is. But we don't believe that we have seen any challenges facing this market where there is no solution.

[Slide change – SOTM friction]

You only have to read Ofwat's first annual State of the Market Report to see that there are rising expectations not just that the market will come together to tackle the issues causing greatest friction, but that clear visible progress will be demonstrated quickly.

More than that, Ofwat have made it clear they expect to see that progress in place when they sit down to write the next one. And that will be in just six months' time.

How to Achieve Progress

Achieving that sort of step change in progress is not something MOSL can, should or would do on our own.

We have a remit to play a significant part in making this market as good as it can be, but that does not mean we are solely responsible for, or are the ones with the levers for, improving every aspect of this market.

Complaints handling sits with CC Water. Access to data is for Government. Ensuring high quality **customer** service sits with Ofwat, as ultimately does trading party performance through the licence regime. And of course, Ofwat does have powerful levers through the price review.

[Slide change – Market stats]

And MOSL is not a regulator, nor do we want to be. A core part of our role is to work with the market to help it govern itself, significantly through the Panel and its committees.

However, I am pleased to say that this time (unlike last year) when we asked trading parties to come up with Data Improvement Plans they did come in, showing there is a commitment from all industry participants to improving the current status quo.

[Slide change – Today's presentation]

MOSL's Focus - On Priority Areas

Through the next Business Plan period MOSL will put an even greater focus on priority areas causing the greatest friction, where we can shape things directly, where we can work with the market to drive change, and where we can act as a voice of the market, using our networks to bring our influence to bear.

Today is a great opportunity to discuss the challenges the market faces and how we, MOSL, can deliver the greatest added value.

Everything Flows from the Strategy

There are some aspects about our approach I'd like to cover;

And I want to stress that today is just one part of the conversation we want to have with you about the new Business Plan. By the time we share the final Business Plan with you for approval at a general meeting in December, there shouldn't be any surprises.

We want you to have a clear understanding about the value those plans will deliver, and the investment needed to achieve it.

As leaders, you will not be surprised to hear that everything begins with the Strategy we published last Summer. I was pleased to see that, both at the time and in your survey feedback, there has been broad support for the goal and the path we are charting to get there.

I will give you my honest take on the market's journey – and MOSL's journey so far.

I will share the major themes, issues and messages which came through your survey Responses

And I will set out how we plan to move things forward through the next Business Plan.

2. MOSL Strategy

So, let me reprise the Strategy we published in July.

[Slide change – Vision and purpose]

The MOSL Strategy sets out a clear goal that this market should be as stable, reliable and low cost as possible, delivering clear benefits to its **customers**.

To build the trust and confidence of both trading parties and customers and be attractive it must have efficient processes, resilient platforms, robust governance, and good interaction between wholesalers and retailers.

The strategy is rightly ambitious, but it is also pragmatic and realistic. The fact it covers five years from 2018 – 2023 is a recognition that this is a new disruptive market operating in a sector with long-established ways of doing things.

The issues the sector faces, many driven by poor data quality, are not going to be solved overnight. We've seen that. But no one has told me that any of these issues cannot be solved.

The strategy sets out how we will prioritise our work on the areas where we can make the biggest leap towards that goal: removing friction from the market; making it easy to use resilient central market systems; reducing barriers to entry and exit, making it easier to innovate in the market, making it easier to transact business at the lowest possible overall cost.

MOSL's work is underpinned by five pillars, which are our guiding principles:

[Slide change - Pillars]

- ◆ Delivering the services that the market needs
- ◆ Transparent effective and efficient market governance, so that the market operates fairly, and all categories of trading party can benefit equally.
- ◆ Stabilising both the market and MOSL as quickly as possible.

- ◆ Innovating, especially around technological challenges and opportunities, and
- ◆ Engaging effectively both with those operating in the market and outside with stakeholders who influence the market

[Addressing principle market frictions]

Responding to market challenges

But while it is a five-year strategy, there is nothing relaxed about the way we are going about achieving it.

The last Business Plan was very much about launching the market, and we have done that. But having done that expectations in and beyond the market are rightly rising sharply. If there ever was a honeymoon period, it is over.

As we showed earlier, in Ofwat's State of the Market report we saw a key example of frustration at the current **pace of change** to deliver the benefits which the new market was established to deliver. There was impatience that issues were not been dealt with more quickly.

The slide calls out the initiatives delivered or underway to address each area of data quality. Wholesaler performance and incentives. Wholesaler-retailer interaction. Customer protection. Credit arrangements. Together these go to the heart of how the market works and serves its customers and we all need to show real progress in these areas.

[Slide change - Performance Initiatives]

Measures We Are Taking

This year, working through what is our third Business Plan, we have worked with the market to respond to that performance improvement imperative on a range of fronts.

We launched the Market Improvement Strategy, with a seven-step plan to drive improved performance.

That led to the creation of a Market Performance Operating Plan focused on four high-impact problem areas: settlement, switching, Improved customer experience and making sure there is a fair market in which all the diverse type of trading party can operate on equal terms.

We published the draft MPOP in July for consultation. A few weeks ago, we published it formally, stressed it would be dynamic and kept under review, and alongside it sits the new Market Issues Register.

This not only shines a light on issues but provides pointers to how they will be resolved. We launched Market Performance Standards charging regime.

Governance

Members also supported our plans this year to change market governance arrangements to make sure all categories of member had a voice on the MOSL Board – you will have seen that Andy Hughes and Josh Gill joined the Board in September in new roles.

We were very pleased by the number of candidates for these roles – 7 in total - which underlined how important members know this is.

We continue to invest in the central operating system CMOS and new systems to help members engage in the market. CMOS has not experienced any major operating issues which have threatened the integrity of the market – a good example of where no news is good news.

3. Delivery against the Business Plan promises

[Slide change - Business Plan Promises]

We made a number of commitments in the current Business Plan and we are making good progress against delivering those.

We measure our performance in delivering services against a range of KPIs and the majority are on track.

We have delivered several important additional pieces of work during the year – which were not anticipated in our Business Plan – for example the work on the RF Deferral, MPS reporting, the Credit Review.

While these were critical to get right, they also took a lot of resource. The decision to relocate has also impacted our resourcing, and I will be updating you all on that later in this presentation.

But there is something I must add here.

I want to be up front and say in some areas we have not made the progress that we and the market envisaged. This amount of unplanned demand-led work was, for example, a significant factor in why we were not able to move forward sooner with the Market Performance Operating Plan.

And I do accept that there has been less focus on market performance improvement as a result, although over the summer we accelerated work in this area.

There will need to be a strong focus in the second half of the year on IT initiatives, such as an increase in engagement through reporting and monitoring.

The second half of the year is also going to be a challenge as we manage our relocation to Southampton.

4. Current thinking on the 2019/20 Business Plan

[Slide change – Business Plan]

So that brings me to the next Business Plan.

The MOSL Board has given clear guidance about what the plan must achieve.

[Slide change - value to members”, “solve big issues”, “achieve impact”, “honest” “achievable”]

Importantly we are very conscious that while the Business Plan must be ambitious it must not be not OVER ambitious or OVER stretching – that would be a fatal mistake in a year of relocation.

The Plan:

- ◆ It must be clear about the value our members can expect from our Business Plan
- ◆ We must deliver the greatest possible impact, by focusing resources on solving a small number of high impact issues
- ◆ We must confront the thorniest issues and be honest what needs to be done.
- ◆ And in a testing year, with resource and attention focused on achieving the smooth relocation, the plan must be deliverable.

In the 2019/20 Business Plan we plan to focus our resources – money and people - on three significant issues where progress is badly needed.

[Slide change - Three Themes]

- ◆ Market improvement: driving significant and measurable improved performance in the key areas of settlement and switching which will have the impact of improving life for both trading parties and customers
- ◆ Stability: making sure our relocation to Southampton goes smoothly with minimal disruption to services, making sure we retain key knowledge, and deliver the benefits which the move makes possible.

- ◆ Bilaterals: supporting the market by developing and helping the market roll out a market-wide, market-backed solution, which makes bilateral engagement between trading parties efficient, ensuring they are operating to common standards, and that market compliance is measurable.

At the same time, we will look to make our processes more efficient and streamlined, which will free up resource to focus on the highest value items.

Our plans address many of the issues members raised through the survey.

And there are initiatives to respond to specific feedback. The market audit cost will be capped for 2019/20 at a much lower upper limit.

There are specific plans to develop CMOS, for example, through guided workflow.

There are different views among members and in fact within organisations about how many CMOS releases there should be during the year to increase efficiency.

There is strong sense there should be more to improve speed of change, but others point out that each release needs careful management and testing of many trading party systems.

We will run a consultation in the next year to fully review this position and identify any opportunities to accelerate changes in CMOS while maintaining support from your operations teams.

5. 2019/20 Budget

The Board is working hard at the moment on our proposed budget for 2019/20, so I can't give you numbers yet.

But I can say that, once again this year, our spending plans will reflect our commitment to members to be valued as a cost-efficient market operator.

The total 2019/20 market operator budget will be lower than the current year and lower than the plans we set out for the coming year in the approved 17/18 Business Plan.

And we **are** on track to begin to deliver the cost savings of £7.4 million (undiscounted) over a ten-year period, envisaged in the Relocation Budget, and approved by members.

6. CEO Survey feedback

I have set out the market wide view on big issues we need to tackle.

I have talked about what we are currently doing and what we plan to do next year.

I want to turn now to what you told us, more specifically, through the survey on where we should focus next year.

[Slide change - Response Numbers]

Thank you to those of you who completed that questionnaire and sent us your thoughts. There was a good response, but I do know that for many of you it came at a very busy time, with Ofwat's PR19 process at a critical stage and the work around the possible deferral of the RF final settlement runs.

We will certainly review how and when we do this for next year.

[Slide change - Feedback 1]

So, what did you tell us about what you think the priority areas are. What were the major themes which came up, both market wide, and by category of member.

There were some important positive messages:

- ◆ You supported the strategy, you welcomed our commitment to keep you informed and you welcomed how our Portfolio Managers work closely with you.
- ◆ You welcomed the focus on finding a solution to bilateral interaction between parties, and the continued development of CMOS, the MVI and our other new tools.

[Slide change - Feedback 2]

But we also heard the very clear messages about where you want our focus to be next year.

You want us to continue to invest in the central market systems. And while you welcome the innovation, you don't want that at the expense of making sure basic things work well.

You have concerns about the way change is managed in the market. But within that there are some conflicting messages.

- ◆ Members talk about wanting faster slicker change
- ◆ But at the same time members want proper consideration of change, proper consultation, well thought-through decisions and implementation.

This is clearly an issue for members. But if we are going to work with the market to respond to it, we first need to understand in more detail what members are saying. What is the problem we are trying to fix?

Therefore, we'd like to use the table discussions to help us understand what the issues are.

We are looking to see if there are ways to make the process of managing change more efficient. That is good in itself and would free up time to focus on the most important high-impact change.

One idea we are exploring, after looking at how things work in other markets, is whether Ofwat really need to be reviewing the high number of low-level change requests about technical ways of working? Does it slow things down, is it really a good use of our time or Ofwat's? Is it necessary? Aren't Ofwat really only interested in seeing strategic or high impact issues?

It is worth asking those questions because it accounts for most of what we see and what the panel considers. We will be developing a proposal to put to the Panel and then Ofwat.

Having that understanding matters because, as this slide shows, parts of the change process are not owned or controlled MOSL.

You want us to continue to invest in the central market systems. And while you welcome innovation, you don't want that to be at the expense of making sure basic things work well.

[Slide change – Code Change Timeline]

You can see here for example that there are different phases in the consideration and implementation of change.

Any Trading Party can propose changes to the rules. These changes may have implications for other others in the market.

We believe it is important that all parties can engage efficiently, being able to comment on and provide evidence in support of, or against, material changes. It is important that this is as easy as possible to help the Panel and Ofwat in assessing changes.

The pre-change service we introduced earlier this year supports this engagement. It forms part of the first block of time here and has had the effect of shortening the time it takes to consider a change, by on average two months.

Part of the time taken to work through change from initial idea to implementation involves a period for Ofwat to consider it and then approve or reject. On average that is two months.

Ofwat's approval of a change sets the implementation date. And the period of development, testing and implementation at the back end after approval requires time and input from development teams in the market, not just our people at MOSL.

All this, of course, only refers to rules changes which go through the Panel and its committees. Is this a more general point about the pace with which the market is evolving?

As I say, please take some time to explore that on your tables.

[Slide change – Wholesaler/associated retailer]

You can see the big overarching themes here:

So, if we now look at that by category of members. First wholesalers:

Now let's look at associated retailers

[Slide change – Themes by category]

And now unassociated retailers

(Pick out a few things from each of these slides to speak to)

7. Relocation

[Slide change - Relocation]

The physical relocation and the intellectual knowledge transfer as staff leave and others arrive all absorb resource. And at the very time we are delivering the remaining initiatives and continuing to deliver our services.

So, given its importance, I'd like to update you on how our relocation to Southampton is progressing.

During the year the Board took the decision, supported by a vote of members, for MOSL to relocate from Central London to Southampton. That is a significant development for us, and something which I know has been very much on your minds.

We have taken a five-year lease on our new base which is at The White Building in the heart of Southampton, well-positioned near the train station, and close to the University Quarter.

We move into the White Building in just a few weeks, and we will be holding our November Board meeting there.

We plan to maintain a London base until the end of January which respects that not all our COLLEAGUES at MOSL can move to Southampton.

We consulted closely with colleagues through this process. And I want to say here that I have seen consistently how the MOSL team have gone the extra mile for MOSL and this market.

We offered them a range of options, for the future. Some are staying with MOSL, others decided it was the right time to move on but agreed to delay their move until the end of April to ensure continuity.

We are in the middle of an intense period of hiring to posts.

We are working through a detailed knowledge transfer plan and are working on bringing the documentation of all our processes up to date, to ensure smooth handovers, so knowledge is not lost.

I'm pleased to report that already we have hired two of three 'Heads of' roles, with the first joining in November. We will do all we can to ensure that during this period there is no drop in service to you, or to the wider market.

We have bought in additional resource to support delivery of remaining initiatives from the current Business Plan, and to maintain our operational service. This will enable us to deliver on our plans and initiatives in the second half of the year.

8. Themes for breakout discussion

[Slide change – questions for discussion]

As I said earlier there are some things which it would be good to understand better or explore.

So, for our table discussions there are four questions we would like you to consider.

Our job is to work for the good of the market. All these questions relate to what good could look like.

As a proactive market operator how can we, MOSL, deliver most added value to you our members and to the market more widely?

Given your view of our priorities for next year, what do you think of the approach I set out earlier around the Business Plan - does it make sense?

How do we, that's MOSL and the market, achieve the right balance between accelerating change and delivering stability. What, practically, should we be doing differently?

In what practical ways can we – again MOSL and the market - – stimulate greater innovation in this market – in terms of improving both the way we do business and the customer offer?

I will say a bit more about how the next session will work in a minute. But first Samir is going to pick up on that last point with an update on some important developments around the work underway to improve bilateral engagement between trading parties.

[Slide change – Samir Presentation]

HAND OVER TO SAMIR

ARRANGEMENTS FOR THE NEXT SESSION

Thank you for that, Samir.

As you can see there has been good progress on this issue and a great prize for getting it right. We are now entering a critical phase, and I personally am very grateful for the work Nick, Samir and the Digital Strategy Committee have done to progress this.

[Slide change – Workshop questions]

Now, back to our discussions.

We have five tables. We would like three tables to take two of the four discussion questions, and the other two tables take the other two questions. The questions are on your tables.

There will be someone from MOSL on each table to facilitate the discussions, but it would be good if one of our members from each table fed back the key points.

Please do take a comfort break now, but to make the most of our time we would ask you to bring your drink back to the table, rather than take a formal tea break.

Jim will chair the feedback session. He will be joined by members of the MOSL Board who are here today. And if there are other issues you want to discuss, then of course we would be very happy for you to raise them.

Thank you for your attention. And before we break, does anyone have questions about the arrangements?

Ends

[Slide change – Board Q&A] [Slide change – Thank you]