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## Wholesale Retail Code Change Proposal – Ref CPW072

<b>Modification proposal</b>	Wholesale Retail Code Change Proposal – CPW072 – Setting MPS15 Charges to Zero
<b>Decision</b>	The Authority has decided to approve this Change Proposal
<b>Publication date</b>	1 October 2019
<b>Implementation date</b>	1 November 2019

### Background

CSD 0002 (Market Performance Framework) defines the processes, methods and incentives designed to support the delivery of satisfactory performance levels by Trading Parties against a set of key performance indicators and obligations. This includes Market Performance Standards that are in place to monitor and incentivise market activities amongst Retailers and Wholesalers. Their purpose is to ensure the accurate and timely operation of the market, where Retailers and Wholesalers are charged for underperformance against the standards.

A committee of the Panel (the Market Performance Committee), supported by the Market Operator (MOSL), is undertaking a review of the effectiveness of the overarching Market Performance Framework. As part of this review, a Change Proposal has been developed in relation to Market Performance Standard (MPS) 15 (Late Meter Read Submission) to remove financial disincentives in the Market Performance Framework to submit late meter reads.

### The issue

MPS 15 measures the time between a Retailer cyclic meter read date and the date the meter read transaction (T105.R) was submitted by the Retailer into the Central Market Operating System (CMOS). Performance (and any relevant charge) associated with the standard is measured at the point of actual submission of the meter read, and not at the point of expected submission, which is measured by MPS 18 and 19 (Missed Meter Read for twice yearly or monthly read meters).

MPS 15 has a service level standard of 5 Business Days and subsequent time parameters that dictate charges that are applicable as follows: 5-10 Business Days at £0, 10-60 Business Days at £5, and 60+ Business Days at £5. Whilst there are

financial incentives to submit a meter read into CMOS up to 10 Business Days following the meter read date, after this point the standard currently provides financial incentives not to submit a meter read.

MPS 18/19 aim to incentivise Retailers to both obtain meter reads and to submit them to CMOS. Should a read fail to be taken and submitted by the expiry of the relevant time parameter for these standards (160 Business Days/40 Business Days), the Retailer will incur a financial penalty of £20. Thus, analysis undertaken by the Market Performance Committee concluded that where a Retailer has missed a meter read and incurred a charge under MPS 18/19, they may not be incentivised to submit this into CMOS as it could incur an additional charge through MPS 15 (if not submitted within 10 Business Days of the meter being read). As a result, meter reads may not be being entered into CMOS despite a late read being in the greater interests of the market as a way to improve the data quality within CMOS.

To support the assessment of the Change Proposal, the Market Performance Committee studied the data from Financial Year 2018/19 MPS charges. The committee concluded that MPS 15 is a relatively high-performing standard (with performance ranging from 50% to 99%), with a significant proportion of failures from certain Retailers appearing to result from data cleanse activities, and not due to business as usual or process failures. There was also no evidence of an incentive to not hit the next time parameters.

In addition to the above, the Panel's Final Report stated that MOSL's work on long unread meters suggested that there may be significant numbers of meter readings currently held by Retailers that have not been submitted into the market. This might be for a range of reasons including the potential perverse incentive point identified in this Change Proposal. However, the quantify of meter reads is currently unknown without detailed analysis being undertaken.

### **The modification proposal<sup>1</sup>**

The Market Performance Committee concluded that removing the MPS 15 charge for a temporary period would be beneficial. It recommended to the Panel to set the zero charge from 1 November 2019<sup>2</sup>. If implemented this would define an amnesty on the late submission of meter readings that are already in the possession of Retailers. Furthermore, the committee has stated it would further consider MPS 15

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<sup>1</sup> The proposal and accompanying documentation is available on the MOSL website at <https://www.mosl.co.uk/market-codes/change#scroll-track-a-change>

<sup>2</sup> This is a revised implementation date that was stated in the updated Final Report, provided to Ofwat on 26 September 2019.

as part of its package of changes to be recommended for April 2020 implementation. These changes seek to improve the effectiveness of the standards regime, and align with the MPF Roadmap being developed by the committee.

Accordingly, the Change Proposal sets the MPS 15 charge to zero with the amendments made to 'Table 1: Market Performance Standard Charges' in CSD 0002. This solution would not require changes to CMOS, but MOSL will be required to make minor changes to the MPS charge calculation that it runs.

## **Industry consultation and assessment**

No consultation was undertaken in relation to this Change Proposal. It is not clear from the Final Report why this decision was reached by the Market Performance Committee.

## **Panel recommendation**

The Panel considered this Change Proposal at its meeting on 27 August 2019. It recommended, by unanimous decision, that the Authority approve this proposal. This recommendation has been made on the basis of improving the principles of efficiency and proportionality. The recommended date of implementation is 1 October 2019.

## **Our decision**

We have considered the issues raised by the Change Proposal and the supporting documentation provided in the Panel's Final Report. We have concluded that the implementation of CPW072 will better facilitate the principles and objectives of the Wholesale Retail Code detailed in Schedule 1 Part 1 Objectives, Principles and Definitions, and is consistent with our statutory duties.

## **Reasons for our decision**

Having reviewed the evidence provided by the Panel in its Final Reports and having clarified some specific questions with the Market Performance Committee, we understand the rationale for recommending this Change Proposal on the basis that this is a temporary solution. Therefore, we are approving this Change Proposal with the expectation that Retailers will ensure old meter readings are entered into CMOS, during a timeframe to be determined by the Panel and/or Market Performance Committee.

Upon the implementation of this Change Proposal, we recommend MOSL and the Market Performance Committee put in place the required monitoring and reporting to

ensure Retailers are being incentivised by the zero charge to address data quality issues and submit old meter reads. This Change Proposal is expected to improve the functioning of the market and therefore benefit customers by removing the disincentive for Retailers to submit late meter reads. Data quality has been identified as a key market friction, and increasing the accuracy of settlement will ultimately provide a flow through benefit to customers. In particular, we consider that this should in turn contribute to affected customers receiving more timely and accurate bills, and reduce the potential for customer detriment in this context.

Our decision is on the basis that this is a temporary solution and that we expect the Market Performance Committee to ensure trading parties are appropriately incentivised to submit timely and accurate data on consumption into CMOS as part of its wider review of the Market Performance Framework. We recommend the committee think about the appropriate timescales for implementing these future changes, for example in April 2020 as stated in the Final Report.

We have set out below our views on which of the code principles are better facilitated by the modification proposal.

### **Efficiency**

We agree with the rationale provided by the Market Performance Committee that this proposal should remove financial disincentives to submit late meter reads, which should improve the quality of meter read data in CMOS and aid more accurate settlement.

### **Proportionality**

Given that: (i) MPS 18/19 aim to incentivise Retailers to obtain meter reads and to submit them to CMOS; and (ii) this is a temporary solution and we expect the Market Performance Committee to ensure trading parties are appropriately incentivised to submit timely and accurate data on consumption into CMOS as part of its wider review of the Market Performance Framework; we consider this Change Proposal to be a proportionate approach to address the potential disincentives arising from MPS 15 on Retailers to submit late meter reads into CMOS.

### **Decision notice**

In accordance with paragraph 6.3.7 of the Market Arrangements Code, Ofwat approves this change proposal.

**Georgina Mills**  
**Director, Business Retail Market**