Wholesale Retail Code and Market Arrangement Code Change Proposals – Ref CPW078 and CPM020

Modification proposal	Wholesale Retail Code and Market Arrangements Code Change Proposals – CPW078 and CPM020 – Priority performance regime changes for April 2020
Decision	The Authority has decided to approve the alternative solution for CPW078 and the proposed solution for CPM020
Publication date	28 February 2020
Implementation date	1 April 2020

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 (MPS) that are in place to monitor and incentivise market activities amongst Trading Parties. Their purpose is to ensure the accurate and timely operation of the market, where Retailers and Wholesalers are charged for underperformance against the standards for which they are respectively responsible.

A committee of the Panel (the Market Performance Committee (MPC)), supported by the Market Operator (MOSL), is undertaking a review of the effectiveness of the Market Performance Framework (MPF). Ahead of this more strategic review of the incentive framework, a package of priority changes has been developed to better incentivise Trading Party performance and behaviour, as well as improve the data submission processes. The motivation for these changes is principally focused on creating drivers to improve, amongst other things, the accuracy of settlement. These changes are aimed at providing benefits to the end-customer through greater incentivisation of improved Trading Party performance, as well as improved data quality and timeliness of the submission of key information.

The package of priority changes encompasses two Change Proposals (CPW078 and CPM020) that have been designed to: (i) enhance financial performance incentives; (ii) encourage better submission of meter reads and improve data quality; and (iii) ensure appropriate use of data submission channels.

These changes impact all Trading Parties but are expected to have a much larger impact on Retailers. This is primarily due to the significant volume of MPS 18 (Missed Cyclical Meter Reads) tasks and charges, as well as the number of Retailers currently exceeding the cap in most months[1].

The issue

Under the current MPF, the uncapped charges of Trading Parties have been far higher than their capped charges. This is largely due to the charges driven from MPS 18. This has resulted in little incentive for Trading Parties, in particular Retailers, to improve their performance in order to avoid additional charges[2]. Additionally, Trading Parties have been charged for the late submission of meter reads but not penalised for meter reads that they take but that they do not subsequently submit into the central system. Finally the five day submission window has caused Trading Parties to submit estimates rather than actual reads. As estimates are likely to be less accurate than actual meter reads, this can have a negative impact on the quality of consumption data, which has been identified as a principal market friction. This change proposal seeks to improve incentive mechanisms in the market in order to address these issues.

The change proposal

Proposed solution

As set out in the Panel's Final Recommendation Report, the MPC proposed the following solution to address the issues identified above:

Components of the proposed solution	Description
A. Cap-level	Increase the cap from 0.15% to 0.2% in April 2020 with a further increase to 0.25% in October 2020.
B. MPS 18 (Missed Cyclical Meter Read)	From April 2020, extend time parameter 1 from 140 Business Days to 200 Business Days with a charge of £10 (previously £20) and remove time parameter 2 (currently at 160 Business Days). So instead of having incremental charges at different

[1] MPS 18, aims to incentivise Retailers to obtain meter reads. Should a read fail to be taken by the expiry of the relevant time parameter for this standard (160 Business Days), the Retailer will incur a financial penalty of £20. MPS Charges are capped each month at 0.15% of the Primary Charges payable to Wholesalers or from Retailers.

[2] There will be other reasons why retailers are incentivised to improve performance – this paper is focussing exclusively on the incentives arising from the MPF.

	time parameters, there will be one time parameter with a flat rate charge of £10.
C. MPS 12 and 15 (Late Meter Read Submission)	Extend the time parameter 1 window for actual reads from 5 to 10 Business Days and extend the time parameter 2 window to 15 Business Days. Time parameter 3 remains unchanged at 60 days. Charge levels remain unchanged.
D. MPS 16 (Late Transfer Read Submission) and MPS 17 (Missed Transfer Meter Read Submission)	MPS 16: Extend the time parameter 1 window for actual reads from 5 to 8 Business Days and extend the time parameter 2 window from 10 to 15 Business Days. MPS 17: Extend the time parameter 1 window for actual reads to -2 to +7 Business Days from -2 to +2 days. Extend the time parameter 2 window to 15 Business Days from 5 Business Days and the time parameter 3 window to 20 Business Days from 10 Business Days. Charge levels remain unchanged.
E. MPS 3 and 4 (New Connection Notification)	Align the time parameter window with MPS 5 by extending the time parameter 1 windows of MPS 3 and MPS 4 to 10 Business Days; and extending time parameter 2 to 15 Business Days. Charge levels remain unchanged.

As a consequence of changes A and B above, the MPC also proposed the following:

- A one-time exclusion of legacy long unread meters from the calculation of MPS 18 charges (but still recorded in MPS 18 performance) for July 2020 data (all non-legacy long unread meters will be included as normal). This is due to the expected long unread meter event that is due to occur in July 2020 as a result of bi-annual Meter Reads not being submitted under MPS 18.

As a consequence of change C, the MPC also proposed the following:

- Invoicing for MPS performance charges will move from no later than 9 Business Days from the end of the month to no later than 15 Business Days from the end of the month.
- Moving the invoicing for Operational Performance Standards (OPS) performance charges to no later than 15 Business Days from the beginning of the month to align with MPS performance charges. This creates the opportunity to extend the timeframe for the submission of OPS data. MPC recommends moving the OPS submission date from within 6 Business Days of the end of each month to within 8 Business Days.
- The change in the invoicing date will lead to a one-off shift in the dates at which Trading Parties are invoiced and at which they pay. The impact on Trading Party cashflows is expected to be positive overall since Trading Parties will have more time to pay for MPS charges.

Alternative solution

The MPC also discussed a variation on the proposed solution, which included increasing the cap to 0.25% from April 2020.

The MPC voted on the alternative solution, with the vote split four votes 'For' and four votes 'Against'. The discussions explored differing views and judgements over retailer cashflows and whether sufficient time would be available to adjust to a cap of 0.25% in April; whilst another consideration was the opportunity to bring more Trading Parties into the active incentive range. The active incentive range occurs where companies are operating within their monthly capped charges, which means Trading Parties will have a financial incentive to improve performance to avoid incurring charges under the MPF.

The MPC subsequently agreed the Proposed Solution should be taken to Panel. Given the MPC decision in relation to the Alternative solution was indeterminate (4 in favour and 4 against), the Chair suggested that the Panel would explore this variation as an Alternative Solution before making its decision. Other options were also raised by MPC members and briefly discussed, such as increasing the cap to 0.25% later in 2021 rather than in October 2020, but these options were not taken further.

Industry consultation and assessment

An industry consultation was published on 5 November 2019 and closed on 19 November 2019. There were a total of 18 responses received; 10 from Wholesalers, 6 from Retailers and 2 anonymous.

Views on the package of proposals to incentivise Trading Party behaviour

The majority of respondents (72%) agreed with the package of proposals put forward to improve incentives on trading parties arising from market performance standards (MPS). However, opinion was split amongst Retailers and Wholesalers with 90% of Wholesalers in support of the measures and only 50% of Retailers. Wholesalers who voted in favour felt that the proposals would enhance incentives, improve data quality and help to increase the number of actual meter reads submitted.

Amongst the feedback on the proposals, there was some concern that an increase in the cap could have a disproportionate effect on Retailers compared to Wholesalers. Two Retailers felt that underlying the proposals was an implicit assumption that they were not doing enough to address issues in the market. They also expressed their opinion that the proposals ignored the fact that in their experience, missed meter reads were in some cases caused by Wholesalers.

Views on whether the MPS 18 time parameter should be changed to a single point of failure

78% of respondents were in favour of increasing the submission window for MPS 18 from 140 to 200 Business Days. A number of respondents raised concerns and some suggested alternative approaches. A key concern has been that increasing the window from 140 Business Days would lead to only attempting a meter reading every 200 Business Days.

There was broad support for a single point of failure at 200 Business Days, with reasons cited including that this period allows a Retailer that identifies an issue to attempt to obtain a read within 140 Business Days, time to rectify the issue, obtain the read and avoid the charge.

One Wholesaler in support of this measure suggested that the submission window for MPS 13 (Missed Meter Read for Cyclic bi-annual Meters for Wholesalers) should be changed to match MPS 18, given that it also has a bi-annual meter read requirement. The MPC noted this suggestion but did not think the measures and reasoning behind the changes were the same. Retailers highlighted that often the issue preventing them from obtaining a meter read stemmed from Wholesaler responsibilities. Whereas, under MPS 13, similar issues may prevent Wholesalers from getting a meter reads into the market, but this is their own responsibility to address. As a result, the MPC agreed not to extend the MPS 13 submission window.

A Wholesaler who voted against the proposed changes to MPS 18, did so because they felt it could have an adverse effect on customer behavior, whereby the customer lacks the ability to monitor their own consumption. The Wholesaler was also concerned that moving the submission window could lead to more missed meter reads as it reduces the opportunity for intervention. They instead proposed an alternative solution with three intervention points; these were at 140, 160 and 200 Business Days with a zero charge for the 140 day intervention point and a £10 charge for the remaining two.

Response from the MPC

The MPC considered views on the concerns raised in relation to extending MPS 18 to 200 Business Days and considered that the risk is mitigated by the code requirement for Retailers to read meters between 100 and 140 Business Days twice a year (CSD 0202, Section 3.5.1). Additionally, there is a requirement in the Authority's Customer Protection Code of Practice (CPCoP) for a Retailer to issue at least one accurate bill or invoice each year[3]. With this in mind, the MPC committed to carefully monitor the impact of these changes on meter reading behaviour.

The MPC considered an alternative proposal for the submission window standard put forward by a respondent to the consultation to introduce measures at 140, 160 and 200 Business Days. It was felt that the benefits of the simplicity of a single point of failure outweighed the benefits of this change. In addition, this proposal would currently be impractical given the technical nature of calculating MPS 18 each month against three separate time parameters.

Views on whether the MPS 18 charge should be reduced to £15

There was broad support to reduce the MPS 18 charge from £20 to £15, with 72% of respondents voting in favour of the reduction. Amongst Retailers there was a split in opinion on this measure. Half of the Retailers that responded to this question felt that the charge should be reduced to £10, not £15, which they felt would still be higher than the cost of a meter read.

Response from the MPC

Having reviewed the consultation feedback, the MPC made a change to the original recommendation. Reflecting the views and evidence provided by Retailers – that a £10 charging level would provide an incentive to obtain meter reads - the MPC recommended changing the MPS 18 charge from £20 to £10.

Some respondents expressed caution regarding the reduction in the charge and the removal of incremental charges. The MPC committed to monitor behaviour around MPS 18 performance following the implementation of these changes. The MPC also acknowledged that some respondents also commented that the primary incentive for a Retailer to obtain meter reads is to enable accurate billing for its customers and to meet its obligations under the Codes. These drivers apply regardless of the level of any charges.

One respondent proposed reducing the MPS 18 charge to £10 initially and then to incrementally increase this to £15. Based on the responses received, MPC noted that a £10 charge should be sufficient to incentivise Retailers to avoid charges by improving performance and the MPC committed to monitor the impact of the changes to MPS 18.

[3] CPCoP Section 9.2 requires that a Retailer issue at least one accurate bill or invoice each year which uses a Meter Read where the supply is Metered.

Another respondent argued that £15 is above the cost of obtaining a meter read. They suggested setting the MPS 18 charge to zero for a defined period in line with the removal of MPS 15 charges. MPC did not agree that they are analogous and did not recommend setting the MPS 18 charge to zero. In the case of MPS 15, the rationale was to encourage Retailers to submit meter reads even if they had exceeded the submission window, but this logic does not apply to MPS 18 as it is not submission based.

Views on whether there should be an increase in the level of the cap

The industry consultation set out a proposal to increase the cap to 0.25% in April 2020 and further to 0.30% in October 2020. Feedback from the consultation demonstrated a clear split in opinion between Retailers and Wholesalers. All six Retailers that submitted a response disagreed with the proposal to double the cap in what they considered to be a short timescale.

One reason cited by Retailers for voting against the proposed changes is that increasing performance charges onto already tight margins would mean reducing the amount of money available to improve services for customers. A suggestion amongst Retailers was to phase in the cap increase over a longer period of time in order to give Retailers the opportunity to improve performance. Wholesalers provided a contrary view and were in strong support of the measure which they feel could provide an incentive to Trading Parties who continuously exceed the cap.

Response from the MPC

On reflection of the feedback, the MPC decided to amend the original solution. The MPC believes there is significant benefit to bringing 80% of SPIDs into the active incentive range. The original Change Proposal looked to bring 60% of SPIDs into the active incentive range by April 2020 by: moving the MPS 18 charge to £15, extending the submission window for MPS 18 to 200 Business Days and increasing the level of the cap to 0.25%. This would be followed by bringing 80% of SPIDs into the active incentive range by October 2020 by further increasing the level of the cap to 0.30%. As the MPC revised the solution to reduce the MPS 18 charge to £10, the same outcome, (i.e. 60% by April 2020 and 80% by October 2020 of SPIDs into the active incentive range) can be achieved with a cap increase to 0.20% in April 2020 and 0.25% in October 2020. Some Trading Parties felt that the changes would not improve performance incentives. However, the MPC noted that the analysis conducted by MOSL demonstrates that more Trading Parties would be within an active incentive region given these changes. It is recognised that there are many incentives driving Trading Party performance however, the incentive created by the MPS charges has been ineffective because a significant proportion of Retailers (by market share) exceed the cap each month. The MPC are proposing to make incentives more effective by bringing a greater proportion of Retailers into the active incentive region. The view of some MPC members is that better incentivisation is achieved by having more Trading Parties in the active incentive range, which will in turn contribute to a better service experience for customers served by these Trading Parties.

Some respondents raised concerns that these changes would significantly increase the overall level of MPS charges. Based on historical performance, analysis conducted by MOSL indicates that without an improvement in performance, between two to six Retailers would be expected to see an increase in performance charges from October 2020. The MPC hoped these changes, alongside the significant on-going work in the Market Performance Operating Plan, will lead to an improvement in performance and therefore a reduction in overall charges. It acknowledged that the intention of this change is not to increase the overall level of performance charges. The MPC also noted that the actual cash flows for MPS charges for 2020/2021 are expected to be lower than 2019/2020 whilst Trading Parties transition to the new charging structure. In particular, the move from 140 and 160 Business Days to a single point of failure at 200 Business Days will lead to a one-off shift in the charges by up to 60 Business Days from 1 April 2020.

Views on whether legacy long unread meters should be temporarily excluded from MPS 18 charges

The element of the Change Proposal to remove legacy long unread meters from MPS 18 in July 2020 was met with broad support by respondents, with 83% voting in favour of the measure. Amongst the feedback in support of this measure, was a recommendation that legacy long unread meters also be excluded from performance calculations, so as not to damage the reputation of companies. Some respondents also expressed concerns that the changes do not address issues around the role of Wholesalers in supporting getting meter reads into the system.

Response from the MPC

The MPC recognised that further changes to the MPF may be necessary to better incentivise Wholesalers as part of their role in enabling Retailers to meet their obligations. These issues are intended to be considered as part of the Roadmap for the longer-term review of the MPF. The current changes are intended to resolve immediate issues with the incentive framework.

The MPC also noted that there is considerable work on-going to reduce the number of long unread meters in the market as part of Market Performance Operating Plan. Therefore, the MPC expects performance to improve and the MPC is optimistic that relief for legacy long unread meters in the future will be unnecessary.

Views on the changes to MPS 16 and MPS 17

89% of survey respondents voted in favour of the proposed changes to MPS 17. Those who supported the changes agreed that they were more likely to increase the number of actual reads as opposed to estimates. One Retailer who disagreed with the changes felt that it was unclear what level of charges would be applied to MPS 17 failures. They were also concerned that MPS 16 needed to be amended to reflect the changes to MPS 17.

Response from the MPC

The MPC agreed that making changes to MPS 17 without also changing MPS 16 will limit the benefit of extending MPS 17 and believe that changes from the original position are required. The MPC recommendation is to take a simple approach of increasing MPS 17 from -2 to +7 Business Days and for MPS 16 to be extended to 8 Business Days. MPC felt that this simple change maximises the benefit of extending the window for getting a read, addressed the related issue of MPS 16 and best supported the objectives.

Views on the changes to MPS 12 and MPS 15

There was strong support from respondents for increasing the submission windows for MPS 12 and 15 from five Business Days to ten. Wholesalers and Retailers were of the view that this measure could increase submissions of Meter Reads leading to better quality data in the long run.

One Wholesaler expressed the view that this measure does not resolve the issue of the non-submission of meter reads being preferable to late submission, as the incentive structure remains the same. Another Wholesaler felt that the ten Business Day window was still too tight for Retailers and should be relaxed further. They also thought that Retailers should only be charged in cases where there is repeat offending.

Response from the MPC

The MPC acknowledged that the proposed changes do not fully resolve the issue of Trading Parties not submitting meter reads once the submission deadline has passed. The MPC recognised the willingness of Retailers to get meter reads into the market despite the potential penalisation through the MPF for late submission. Accordingly, the change looks to reduce potential disincentives for those Retailers who endeavour to get meter reads into the market more than five Business Days after the meter read date.

Views on the changes to MPS 3 and MPS 4

89% of respondents agreed with the proposed changes to MPS 3 and MPS 4. Only two respondents did not agree with these changes. Of those that disagreed with the changes, one respondent agreed with the changes to MPS 3 and MPS 4 but felt that this should be extended to MPS 7.

Response from the MPC

The MPC believed that the timely submission of data is important and that MPS 7 currently supports this initiative. The changes to MPS 3 and MPS 4 are being made to address specific issues related to the quality and form of data submission. The MPC believes the changes to MPS 3 and MPS 4 are positive however, it is acknowledged that it may be beneficial to also change MPS 7, distinguishing between initial and final reads for a new connection versus a meter exchange so that Wholesalers can fully benefit from the changes to MPS 3 and MPS 4. That is, where the Meter Read Date contained in MPS 7 is likely to be the same as the Effective From Date in MPS 3 and MPS 4, the Wholesaler would be constrained to meet the 5 Business Days submission window in MPS 7 and would not be able to use the full 10 Business Days submission window of MPS 3 and MPS 4. The MPC recognised further work is required to understand this issue and determine a suitable response and is currently not making any recommendation to change MPS 7 at this time. Part of this consideration will look at the impact MPS 5 has on the performance of MPS 7. The MPC also noted that only one Wholesaler highlighted this issue. The other respondent that disagreed argued that 5 Business Days were enough. They also did not believe that extending this time parameter would create an issue and would not make a material difference to outcomes.

Panel recommendation

At its meeting on 10 December 2019, the Panel considered the CPW078 proposed and alternative solutions and CPM020 proposed solution. The Panel noted that the CPW078 proposed solution was expected to deliver 60% of the market into an active incentive range by April 2020 and 80% of the market into an active incentive range by October 2020.

The Panel was unanimous that the CPW078 Proposed Solution was better than the current baseline.

A majority (8) of Panel Members agreed that the Alternative Solution for CPW078 was better than the current baseline. The four (4) Panel Members that disagreed felt that the state of the market did not warrant a quicker loosening of the cap, and there was a lack of evidence in how the new MPS regime (moving more SPIDS into the active incentive range) will resolve market performance issues.

When comparing the CPW078 Proposed and Alternative Solutions, a minority (4) of Panel Members felt that the CPW078 Proposed Solution was better than CPW078 Alternative Solution, with the majority (8) of Panel Members preferring the CPW078 Alternative Solution over the Proposed Solution. As a result, the Panel agreed to recommend the CPW078 Alternative Solution.

The Panel was unanimous that the Proposed Solution for CPM020 should be approved and that the recommended implementation date for both CPW078 and CPM020 should be 1 April 2020 if Authority approval is received by 1 March 2020.

Our decision

We have considered the Change Proposals and the supporting documentation provided in the Panel's Final Recommendation Report. We have concluded that the implementation of the alternative solution for CPW078 and the proposed solution for CPM020 will better facilitate the principles and objectives of the MAC and WRC as detailed in Schedule 1, MAC Principles and Objectives and Schedule 1 Part 1 Objectives, Principles and Definitions of the WRC, and is consistent with our statutory duties.

Reasons for our decision

Having carefully reviewed the evidence provided by the Panel in its Final Recommendation Report we are approving the alternative solution for CPW078 and the proposed solution for CPM020. We expect MOSL and the MPC to monitor and evaluate the impact of these changes on Trading Party performance – including in relation to the change in charging level and time parameter for MPS 18.

We recognise the concerns raised by some Trading Parties that the proposed changes could have a disproportionate effect on Retailers in terms of the increased cap. However, financial incentives will not be effective and will not incentivise improvements to Trading Party performance if a significant proportion of the market continues to exceed the cap each month. Bringing a greater proportion of SPIDS into the active incentive range should encourage Trading Parties to avoid charges by improving their performance – hence increasing the cap should not necessarily lead to higher charges if Trading Parties respond by improving their performance. For these reasons we support the Panel's recommendation of the alternative solution for CPW078, rather than the proposed solution, as it brings a higher proportion of the market (80% of SPIDs compared with 60%) into the active incentive range from April

2020. This should strengthen incentives to improve performance, which will benefit customers.

Poor quality market data has been identified as a principle market friction and so we are also supportive of Trading Parties being better incentivised to submit actual meter reads rather that estimated meter reads, which should help to ensure customer bills are based on more accurate data and improve the quality of market data more generally.

We also understand the rationale for the one-off exclusion of MPS 18 charges in July 2020 and strongly encourage Trading Parties to continue working with MOSL to address issues associated with long unread meters.

We have set out below our views on which of the code principles are better facilitated by these Change Proposals.

Efficiency

We agree with the rationale provided by the MPC that these proposals should improve the efficiency of market operation by improving the effectiveness of incentives and providing more reasonable timescales for Trading Parties to enter more accurate consumption data into the market.

Proportionality

We consider that the alternative solution for CPW078 (which should increase the proportion of SPIDs in the incentive active range from 30% to 80% from April 2020) represents a proportionate approach to addressing the issues arising from ineffective incentives.

Simplicity, costs effectiveness and security

We agree with the MPC that these changes will simplify the MPF by reducing the number of time parameters in MPS 18 to just one. Meter read submissions will also be simplified by aligning the submission windows for MPS 3, 4, 12 and 15. In addition, CPM020 simplifies the invoicing process for MOSL and Trading Parties by aligning the MPS and OPS invoicing dates.

Decision notice

In accordance with paragraph 7.2.8 and 6.3.7 of the Market Arrangements Code, the Authority approves this Change Proposals.

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