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## Wholesale Retail Code Change Proposal – Ref CPW059

<b>Modification proposal</b>	Wholesale Retail Code Change Proposal – CPW059 – Changes to review obligations
<b>Decision</b>	The Authority has decided to accept this Change Proposal with modifications
<b>Publication date</b>	20 January 2021
<b>Implementation date</b>	15 February 2021

### Background

There are four technical aspects in the Market Operator’s (MOSL’s) Central Market Operating System (‘CMOS’) that currently require review on an annual basis. These are the:

- 1) Industry Level Estimates (‘ILEs’);
- 2) Volume Estimating Caps (‘VECs’);
- 3) Rollover Detection Algorithm (‘RDA’); and
- 4) Nominal Maximum Design Capacity (‘NMDC’) values.

The purpose of these reviews is to ensure the technical aspects continue to be appropriate and are working as expected within CMOS. Since April 2017, each of the four technical aspects have been regularly reviewed as follows:

- ILEs were reviewed in April 2019 and May 2020.
- Volume Estimating Caps were reviewed in June 2017, November 2018 and March 2020.
- RDA was reviewed in November 2017, December 2018 and March 2020.
- NMDC values were reviewed in February 2018 and February 2020.

All 10 of these reviews were presented to the Panel at their meetings in the corresponding months. With the exception of the first ILE review, the Panel agreed that no amendments were required. The first ILE review caused a Change Proposal to be raised – [CPW066: 'Estimation Review'](#) – which changed the definition of the ILEs but did not amend their values.

## The issue

MOSL has proposed CPW059 due to the concern that reviewing these technical aspects on an annual basis is over-frequent. This is because they have been assessed several times since market opening in April 2017, with no change to their values and one amendment to their definition. MOSL therefore state that the carrying out these reviews on an annual basis is not an efficient use of time and resource.

MOSL also believes that as the technical aspects have consistently been assessed to be robust, the annual reviews are no longer considered to be appropriate. MOSL state that the reviews require a good level of market knowledge, which use resource that could be better spent on other projects, such as other Change Proposals, market improvement work or other ongoing work streams.

## The Change Proposal<sup>1</sup>

This Change Proposal seeks to change two Code Subsidiary Documents ('CSDs') of the Wholesale Retail Code ('WRC'). CSDs set out the detailed processes that further describe and facilitate the performance of duties under the Market Terms. The two CSDs that this Change Proposal seeks to amend are as follows:

- CSD 0203 – Meter Read Submission: Validation; and
- CSD 0207 – Charge Calculation, Allocation and Aggregation.

The solution proposed seeks to:

- Change review timescales for the four technical aspects set out at the start of this decision from annual cycles to either three or five year cycles, as follows:
  - ILEs: review at least once every three years;
  - VECs: review at least once every three years;

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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>

- RDA: review at least once every five years; and
- NMDC: review at least once every five years.

The basis for the difference in the proposed cycles set out in the Change Proposal is that the RDA and NMDC table are very stable and highly unlikely to require changes, whereas the ILEs and VECs could potentially be affected by a range of factors and should therefore be reviewed more often.

- Establish a risk register to inform whether the technical aspects require reviewing. This will be assessed by MOSL annually and determine the appropriateness of each one listed and whether any additional risks require documenting or addressing. If any event identified in the risk register occurs, MOSL will undertake a review of the associated technical aspect before the three or five-year cycle. Appendix 4 of the Final Recommendation Report contains the proposed risk assessment methodology, titled 'Risk-Based Approaches for the Review of Technical Estimates/Routines in CMOS'. The Change Proposal sets out that, if CPW059 is implemented, the risk assessment process will be referenced in the relevant CSDs however the risk assessment methodology itself will not be codified in order to ensure the methodology remains flexible.
- Ensure Panel oversight, with the Panel able to request MOSL undertake a review of the technical aspects at any time, should it deem one necessary.

### Previous Ofwat decision on CPW059

CPW059 was initially put forward by MOSL in July 2019, for the same reasons set out above. The initial proposal also included an amendment to remove an obligation in the Market Terms, the 'Provisions of Information' section, which is not included in this Change Proposal.

Ofwat stated in its decision document that it could not properly form an opinion on approving CPW059 due to the following reasons:

- 1) **Inconsistency in legal drafting:** Ofwat's review of the proposed legal drafting submitted alongside the initial proposal noted that the decision of when the reviews will be undertaken sat with MOSL and not the Panel, which did not align with the initial Final Recommendation Report. Ofwat stated that it could not proceed to make a decision on the Change

Proposal and recommended MOSL review the legal drafting, in order to reflect the solution in the Final Recommendation Report.

- 2) **Lack of rationale:** Ofwat was concerned with the lack of rationale in the Final Recommendation Report for the entire removal of the 'Provisions of Information' section in the Market Terms. It requested further details on why the Panel questioned the appropriateness, the rationale behind this and any consequential impacts.

The revised solution in the updated CPW059 addresses the first point outlined above. A separate Change Proposal will address the appropriateness of the 'Provisions of Information' section, which is therefore not considered as part of this decision document.

### Industry consultation and assessment

An industry consultation for CPW059 was not undertaken, with MOSL stating this was due to the following reasons:

- 1) MOSL stated that the implementation of CPW059 will have no impact on Trading Parties' processes and systems or have any impact on Trading Parties' costs. The accuracy of settlement charges will also not degrade, as the combination of annual risk assessment and codified technical reviews will ensure that the parameters remain relevant. Therefore MOSL's view was there was little to gain from an industry consultation.
- 2) MOSL also stated the Panel has been presented with these reviews since April 2017 and is considered well-placed to judge whether the annual reviews and subsequent Panel presentations are truly appropriate, whereas the wider industry may not be as familiar with these processes.

The customer representative CC Water (CCW) were contacted to provide views on the revised proposal. They were supportive of the change to review cycles on the basis that previous reviews had identified the technical aspects as stable, and thought it was therefore sensible to direct resources to higher priority areas. Whilst they supported the case to reduce the timeframes, they did flag there could be a risk with leaving these timeframes open-ended, and stated they believed that it would provide greater assurance if the cycles were fixed under the Codes to ensure the reviews do take place.

## **Panel recommendation**

The Panel considered this Change Proposal at its meeting on 29 September 2020 and agreed unanimously to recommend CPW059 to Ofwat for approval, as well as the implementation dates as set out in the Final Recommendation Report.

The Panel did note the lack of detail in the report on the risk assessment process; specifically, how and when the assessments would occur and the material that would then be shared with the Panel. A Panel member also noted ambiguity on this process in the proposed code drafting. To address this, the Panel agreed that MOSL would establish a working practices document that would outline the annual assessment process and subsequent Panel involvement. MOSL agreed to produce this document – with input from the Panel – if CPW059 is approved and implemented.

## **Our decision**

We have considered the issues raised by the Change Proposal and the supporting documentation provided in the Panel’s Final Recommendation Report, and have decided to accept the proposal subject to modifications to the legal drafting.

## **Reasons for our decision**

We acknowledge the points raised by the MOSL as the Proposer and have concluded that the implementation of this Change Proposal will better facilitate the principles and objectives of the WRC in terms of efficiency and proportionality.

We agree with MOSL that the reviews that have taken place to date have shown that the technical aspects are stable and we note there have been no changes to values as a result of the reviews. We think this provides evidence that the technical aspects of CMOS are working as expected and therefore gives rationale for extending the period of time between reviews. We therefore think the solution proposed by this Change Proposal, which includes the establishment of a risk register and enables the Panel to request a review at any time, is proportionate as a result of this evidence.

We also think this is a pragmatic solution to avoid constraints on time and resource. This is because a risk-based approach allows MOSL to assess the need to review each year and make an informed decision based on this assessment, which will allow resource to be used in other priority areas as appropriate. We

think that this demonstrates that the implementation of this Change Proposal will provide the flexibility to allow resource to be used efficiently, and proportionately based on the need for a review.

We support the legal drafting that includes the ability for the Panel to request a review at any time. We agree with this additional level of oversight and think it demonstrates there are sufficient controls in place to ensure the technical aspects are still considered and can be prioritised for review as necessary. We agree that it would be beneficial for MOSL to provide the Panel with greater detail on the risk assessment process and the information that would be shared with Panel members. We have made amendments to the legal drafting (attached in Appendix A to this document) to make the expectation clearer that the assessment of risk should be carried out in accordance with the guidance provided as Appendix 4 to the Final Recommendation Report, 'Risk-Based Approaches for the Review of Technical Estimates/Routines in CMOS.' This is to ensure clarity around the risk assessment and also to pick up the Panel's comment on the need for further detail. We understand this guidance will be reviewed by MOSL annually and updated if necessary. We would also encourage MOSL to produce the working practices document shortly after implementation, to ensure there is clarity on the processes associated with this change and ensure that expectations are clear from the outset.

We would also like to remind Trading Parties that they can raise a Change Proposal to amend these technical aspects outside the review cycles if they feel there is a need, as with any of area of the Market Codes that the Change Proposal process permits. With this in mind, and in light of the regular risk assessment and Panel oversight points noted above, we believe there is sufficient assurance in place to extend the time between reviews without an adverse impact.

## **Decision notice**

In accordance with paragraph 6.3.7 of the Market Arrangements Code, the Authority accepts this Change Proposal.

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

## Appendix A: Modifications to the legal drafting for CPW059

### Code Subsidiary Document No. 0203: ‘Meter Read Submission: Validation.’

#### On page 21, section 2.5, Meter Rollover detection and Meter Rollover validation:

2.5.9 The Market Operator shall assess the need for a review of the algorithm every Year, based on an assessment of risk; ~~carried out in accordance with the guidance Risk-Based Approaches for the Review of Technical Estimates/Routines in CMOS, as amended from time to time by the Market Operator. and review t~~The algorithm shall be reviewed no less than once every five (5) Years. Based upon this review, the Market Operator shall provide a report to the Panel on whether the algorithm remains appropriate. The Panel may request the Market Operator to undertake a review of the algorithm at any time, if it considers a review necessary.

#### On page 40, C. Appendix: Nominal Maximum Design Volume:

C.1.3 The Market Operator shall assess the need for a review of this table every Year, based on an assessment of risk; ~~carried out in accordance with the guidance Risk-Based Approaches for the Review of Technical Estimates/Routines in CMOS, as amended from time to time by the Market Operator. and shall review t~~The table shall be reviewed no less than once every five (5) Years. Based upon this review, the Market Operator shall provide a report to the Panel on whether the table remains appropriate and if a Change Proposal should be raised to amend it. The Panel may request the Market Operator to undertake a review of the table at any time, if it considers a review necessary.

### Code Subsidiary Document No.0207: ‘Charge Calculation, Allocation and Aggregation.’

#### F.1 Industry Level Estimate

**F.1.1** The Market Operator shall set the values for the Industry Level Estimate Table (ILET) as follows. The values in the table represent calculated estimates (F.1.2) of the expected flows through meters of the given Water Chargeable Meter Size for Occupied Premises.

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Industry Level Estimate *ILET*

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Lower Water Chargeable Meter Size	Upper Water Chargeable Meter Size	Estimate
(mm)	(mm)	(m <sup>3</sup> /a)
0	19	250
20	24	500
25	29	1,000
30	39	2,500
40	49	3,500
50	79	7,500
80	99	20,000
100	149	35,000
150	199	150,000
200	249	350,000
250	299	1,200,000
300	449	2,000,000
450	∞	3,500,000

**F.1.2** The Market Operator shall assess the need for a review of the table every Year, based on an assessment of risk carried out in accordance with the guidance Risk-Based Approaches for the Review of Technical Estimates/Routines in CMOS, as amended from time to time by the Market Operator. ~~and review~~ The table shall be reviewed no less than once every three (3) Years. The Market Operator shall review the table based upon at least two years of actual settlement volumes through meters at Occupied Premises. The Market Operator shall publish a sensitivity showing not only the median volume, but also the volumes at the 10th, 25th, 50th (median), 75th and 90th percentiles. Based upon the review, the Market Operator shall make recommendations to the Panel as to whether a Change Proposal should be brought forward or not to update either the groupings of meter sizes or the estimated flows. The Panel may request the Market Operator to undertake a review of the table at any time, if it considers a review necessary.

## F.2 Volume Estimating Caps

**F.2.1** The Market Operator shall set the following caps in respect of estimating Volumes.

Estimating Caps	
Cap	Value
<i>Ycap</i>	3
<i>Icap</i>	10

F.2.2 The Market Operator shall assess the need for a review of the table every Year, based on an assessment of risk **carried out in accordance with the guidance Risk-Based Approaches for the Review of Technical Estimates/Routines in CMOS, as amended from time to time by the Market Operator**. In conjunction with the review of the table in Appendix F.1.2, the Market Operator shall review the table no less than once every three (3) Years and, based upon the review, make recommendations to the Panel as to whether a Change Proposal should be brought forward or not to update either of the Volume Estimating Caps. The *Ycap* should be set at around a level of the upper bound over all the meter sizes of the 90th percentile of annual volume estimates compared to the median volume. The Panel may request the Market Operator to undertake a review of the table at any time, if it considers a review necessary.