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# Speech

Given by David Black, Interim Chief Executive  
MOSL CEO Forum, Institute of Directors  
Friday 12 November

## A business retail market that creates value for customers, society and the environment: progress and prospects

### 1. Introduction



Good morning everyone. It's good to see so many of you in person today, after a long period of virtual interactions. This is the first time I have attended this forum, so thanks to Sarah and MOSL for opportunity to speak today.

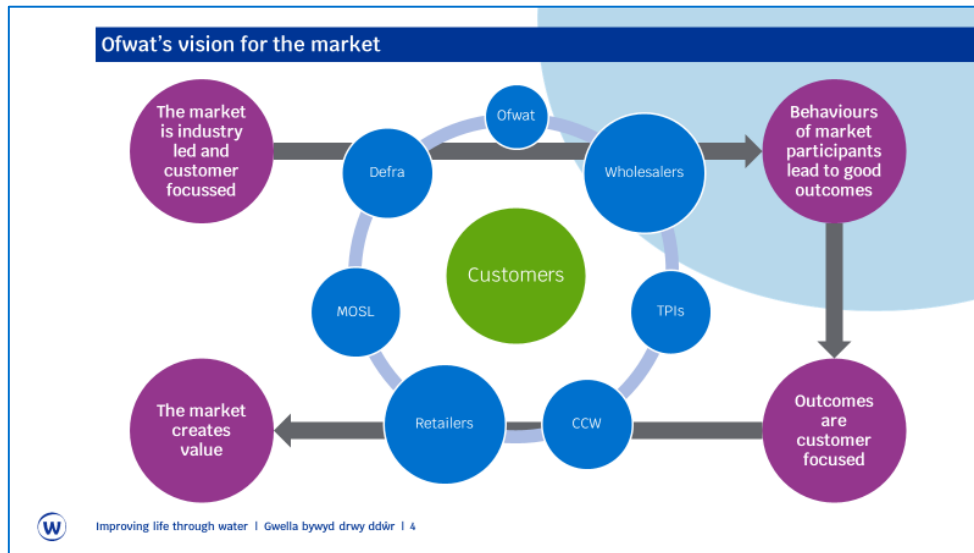
I am going to begin by setting our vision for the business retail market – which is a market that creates value for customers, society and the environment.

I will review progress made over the past year; and set out what else we think needs to be done to deliver our vision.

I am conscious that this market – like every market in the UK and indeed the world – is still living with some uncertainty associated with Covid-19. But a key strength of markets is their

ability to evolve and adapt to new normal. So now is a crucial time for all market participants to fully engage – on getting this market working for customers and the environment.

## 2. Our vision



This time last year Rachel set out our vision for the market and focussed on the behaviours and the roles that we all – as market participants – need to play in delivering this vision.

Our vision is of a business retail market that provides better service, better value for money and new and evolving propositions that meet the changing and diverse needs of customers and society.

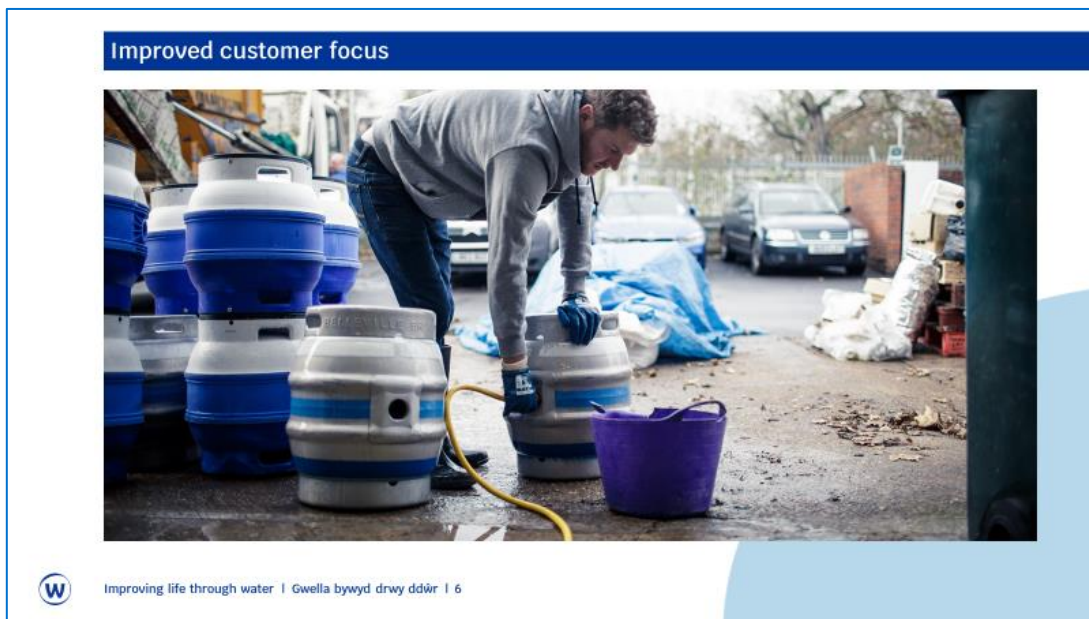
Success for this market means that it is creating added value – growing the pie. The aim of market opening went well beyond the goal of bringing in new parties to take over the legacy retail activities of the regional water companies. It was to create a dynamic, competitive market that would drive material improvements to and evolution of the retailer offering.

We have been clear that achieving this vision requires two key behaviours from all market participants:

- Active engagement– with senior sponsorship and a strategic focus as well as engagement at an operational level; and
- An unrelenting focus on customers – and what they need both now and in the future.

And of course, delivering this vision also requires getting the basics right and this includes resolving market frictions.

### 3. Progress to date



So what have we – as a market – achieved in the last year? I'm going to say a few words about progress made to date in three areas: 1) sharpening the focus on customers; 2) resolving market frictions; and 3) water efficiency.

#### Sharpening focus on customers (governance)

I think it is fair to say that whilst we haven't succeeded – just yet – in putting customers truly at the heart of this market, we are taking important steps in this direction.

This time last year the market had just recruited a new Panel chair – Trisha McAuley. Since then, Trisha and the current codes Panel have been working closely with MOSL and other market participants to make some important changes to market governance to ensure decision making is more focussed on delivering benefits for customers.

For example, we now have a new strategic Panel – which has a majority of independent members – who will provide strategic direction and oversee programmes of work to improve customer outcomes. This includes agreeing a set of strategic priorities for the market and ensuring that market initiatives are focussed on delivering against those priorities. You'll hear more from Trisha about this new Strategic Panel later on today.

Another way in which the market has sharpened the focus on customers is by introducing changes to the principles that govern key market codes. This includes a primary principle ensuring any changes to those codes further the interests of current and future business

customers. Again, we hope these changes will sharpen the focus on delivering priority initiatives that really 'shift the dial' for customers.

To be clear, increased efforts to deliver on priorities is likely to mean that some existing market initiatives will need to stop. And this is why it is important that the new Strategic Panel and its committees have discretion not to pursue proposed changes to the market codes – for example if such changes would not clearly benefit customers. We continue to believe that an unrelenting focus on customers is what should drive prioritisation of effort, resources, and time in this market.

- Market frictions – wholesaler retailer interactions

We have been clear that getting this market to deliver improved outcomes for customers requires getting the basics right – in other words, resolving market frictions. This includes making sure that interactions between wholesalers and retailers work well.

Since the market opened in 2017 it became apparent very quickly that such interactions were not working well. This was leading to unnecessary costs for retailers and to customers experiencing delays – for example in getting their meters fixed.

We have been very supportive of the 'bilaterals' programme – which essentially aims at making these interactions between trading parties less painful and more efficient through increased standardisation and automation. So it follows that we were very pleased to see the first phase of the bilaterals hub go live recently. We recognise and appreciate the amount of industry effort, time and resources that has gone into making this happen. But also note there is more work to do.

Another source of 'friction' between wholesalers and retailers relates to wholesale tariff structures – for example different wholesalers taking completely different approaches to calculating assessed charges for non-household customers who are not on a metered supply. It has been good to see wholesalers and retailers working together in the Retailer-Wholesaler Group (RWG) to explore the scope for simplification here. I encourage all trading parties to respond to the consultation on this issue, in the spirit of making the business retail market work more effectively for customers.

## **Water efficiency**

When the market opened it was envisaged that retailers would compete on the basis of saving customers money from using less water. Despite some notable water savings achieved by some customers – including those who have opted to self-supply – we have not seen the market deliver the improvements to water efficiency we might have expected at market opening.

It is clear from talking to customers that poor quality customer and consumption data is one driver – "if you can't measure it, you can't manage it". But it is also clear there may be other factors at play preventing business customers from using water more efficiently.

This is why – back in March 2020 – both Ofwat and the Environment Agency – wrote to trading parties to request that industry work collaboratively to agree and to deliver an action plan to improve water efficiency in the business sector. We have been pleased to see industry step up and work together in agreeing an action plan and taking steps to deliver that plan. And wholesalers stepping up to offer incentives for water efficiency to retailers.

However, clearly more remains to be done. We see water efficiency as an important example of how the business retail market could innovate to deliver benefits to current and future customers. This leads me on to what more needs to be done to realise our vision of a market that creates value for customers...

#### 4. What more needs to be done



I would like to focus on two areas: addressing remaining market frictions; and unlocking innovation to create value.

#### Market frictions – data quality, wholesaler performance

I said earlier that introduction of the bilaterals hub was expected to remove unnecessary cost from this market and improve outcomes for customers by making interactions between wholesalers and retailers more efficient.

But there are other market frictions – poor data quality and inadequate wholesaler performance – where we think resolution is going to require further effort from market

participants. It is good to see some important initial steps taken to reform the market performance framework (MPF), with the Call for Inputs recently published. And I understand there is going to be a further conversation about MPF reform later today.

But we consider progress in reforming the MPF has been too slow and needs to accelerate over the coming year. I don't think it is wrong to expect to see substantial progress to have happened by the time we meet again next year. I also want to be clear that when look at the efficient level of retailer costs as part of the REC review, we will not pass onto customers inefficiencies associated with poor market performance.

We would therefore like to see trading parties support reform of the current MPF as a priority. This includes supporting MOSL by making sure there is sufficient resource to take this work forward over the next 18 months.

Incentives like B-MeX and R-MeX can really help encourage wholesalers to improve performance. But we want to see wholesalers step up their support for this market in other ways too. This includes engaging with the market at a senior, strategic level as well as at a more operational, technical level. We are seeing some shift in mindset here from some companies, as evidenced by attendees today. But we would like to see other companies similarly step up and start seeing this market as a means of helping them deliver on their strategic priorities.

## **Innovation**

This brings me back to innovation. Whilst we are seeing some traction on water efficiency over the past year, we still aren't really seeing the level of innovation to significantly benefit customers or the environment.

There are some positive indications, it has been good to see some entrants this year with business models more focused on saving customer's water. It was also good to see Castle Water collaborate with Bristol Water and others to successfully bid for funding from the Ofwat innovation fund. I know the market also has its own market improvement fund and I will be interested to see over the next few week which projects are going to be funded from that too.

But in the main it can't be said that we are seeing significant levels of innovation. This compares to the rest of the economy, where we are seeing retailers use data and digital interfaces to transform the services offered to customers.

Innovation is crucial to this market creating value for customers, society and the environment. For example, we are continuing to see smaller customers less aware of and engaged in this market and our analysis indicates that small customers can expect to save around £15 a year from switching supplier. Price isn't the only driver for customers to engage, but still, some small customers may conclude that the effort to engage in this market isn't

worth it given the potential price savings. But would that still be the case if we saw meaningful innovation that:

- lowered the costs to customers engaging in the market – for example via multi utility bundling; or
- increased the benefits to customers of engaging – for example via transformation of the retailer offering?

You'll see that we have started a conversation across the wider water sector about the benefits of more open data. In that consultation we highlight the potential benefits that greater access to data could have in this market too. For example, would third party intermediaries (TPIs) having better access to market data enable them to work directly with customers to reduce their water use? Do we need a regulatory sandbox in current codes to encourage new propositions to enter market?

In any case, there needs to be a proper debate about how we improve level of innovation – aimed at identifying and wherever possible removing barriers to innovation rather than picking winners.

## 5. Conclusion



So, to conclude. Our vision for the market is simple; it needs to create value for customers, society and the environment. The introduction of the retail market was not about carving up the pie, it was about harnessing market forces to grow the size of the pie.

Whilst we consider some progress has been made over the past year in realising that vision, now is the time to act:

- to accelerate efforts in resolving some of the market frictions, in particular data quality and wholesaler performance; and
- to unlock the potential that innovation can deliver.

This is going to require prioritisation of time, resources and effort on those initiatives that are going to deliver the biggest step changes for customers, society and the environment. We ask all market participants to support the new Strategic Panel in identifying those priorities and working with the rest of the market to deliver them.