

MOSL response to Ofwat's discussion paper on outcome delivery incentives for PR24

As market operator for the non-household water market in England, MOSL welcomes the opportunity to respond to Ofwat's discussion paper on outcome delivery incentives (ODIs) for PR24.

The incentives and penalties in the household market are many times higher in the household market than the non-household water market. As a result of this imbalance, water companies' operational and investment focus is weighted disproportionately to the household market. Ofwat's consideration of ODIs for PR24 is therefore an important and timely opportunity to help address the current imbalance and help increase water wholesalers' focus on the non-household market.

Five years on from market opening we now have a much better understanding of the current and future needs of the market and its customers. As a market that consumes around a third of England's water, we also recognise the significant role it can and should play in terms of water efficiency. PR24 has an important role to help unlock this.

To ensure companies are equally focused on their performance and the outcomes for customers and the environment in both markets, we strongly recommend that the set of incentives and penalties (including ODIs and Performance Commitments) are rebalanced and ideally equalised.

The current performance standards charges, which are part of the Market Performance Framework (MPF), are significantly lower than those in the domestic market. They are also capped, which means that once the maximum penalty level is reached, there is no incentive on the trading party to prevent further deterioration in service. Even a water company at the lower end of non-household performance league tables will see their charges equate, at most, to hundreds of thousands as opposed to millions of pounds through ODI penalties.

The [reform of the MPE](#), whilst a priority, must not be seen as a panacea for addressing all areas of performance and incentivisation in the non-household market. While it is an opportunity to reconsider, and appropriately incentivise, the outcomes we want to see in the market, it will have limitations. For example, the actions and improvements that wholesalers and retailers will need to undertake in support of good customer or environmental outcomes (and which may be driven by any future MPF) will remain bound within the wider market and economic structures that can only be addressed through PR24 and the Retail Exit Code (REC) review.

PR24 has a timely and crucial role to play to improve the quality of customer and asset data in the non-household market. Better quality data is not only key to ensuring customers receive accurate and timely bills

and improving the settlement accuracy between retailers and wholesalers; it is also the key to unlocking the market's potential to understand and improve water efficiency.

In our [response](#) to the previous consultation on performance commitments for PR24 we highlighted the importance of a common 'meter asset health' performance commitments to provide an equal incentive across all household and non-household meter sizes (and geographies) to ensure they are accurate, can be easily read and are able to support commonly used technology for improved data collection.

We are also developing our understanding of how, where when and why business customers are using water. Part of this work will identify the extent of domestic-like usage in the non-household sector. The aim of this is to provide trading parties with the insight they need to develop more targeted water efficiency interventions as part of PR24.

We welcomed the opportunity to convene a workshop in December 2021 with Ofwat, retailers, wholesalers and customer representatives on the key non-household market issues that need to be considered as part of PR24. It is important this conversation continues in the coming months so that PR24 can set out clear obligations and incentives for water companies to reinvigorate competition and deliver value and choice for non-household customers.

If you have any questions on our response to this consultation, please email 