**PR24 workshop**

# Designing the BR-MeX incentive for the 2024 price review (PR24)

13 April 2023

Ofwat

**Welcome and introductions**
**Shaun Kent**
(Director, Business retail market)

# Aims of the session and agenda

This is the first of Ofwat's workshop's aimed at advising the development of the BR-MeX incentive for PR24. The aim of this initial session is:

1. To update companies and the industry on Ofwat's plans for developing the BR-MeX incentive for PR24
2. To discuss some initial high level policy questions to advise the BR-MeX pilot and future policy development

The agenda is set out below:

| Time | Item | Location |
|------|------|----------|
| 9:30 | Welcome and housekeeping | Main room |
| 9:35 | Overview of BR–MeX | Main room |
| 9:55 | Breakout 1 – Sourcing customer contacts for the B–MeX survey | Breakout rooms |
| 10:15 | Feedback from session | Main room |
| 10:20 | Breakout 2 – considering the role of MPF metrics in BR–MeX | Breakout rooms |
| 10:40 | Feedback from session | Main room |
| 10:45 | Ofwat closing remarks | Main room |

We will aim to publish both the slides and a summary of the meeting on our website. A link to the BR-MeX webpage will be circulated in due course.

# Overview of BR-MeX

# Overview of BR-MeX (1 of 2)

Ofwat's PR24 final methodology set out that BR-MeX would be included as a common performance commitment for PR24. The inclusion of the performance commitment was in part a response to Ofwat's previous work on Project RISE. This found that wholesalers' support for the market needs to improve and that they need a stronger focus on their business customers.

The final methodology drew on work already undertaken in the industry, including:

- A feasibility report by Europe Economics
- The findings of the MOSL led B-MeX working group
- The current MOSL R-MeX survey

The final methodology set out that the incentive would rely on two primary sources to measure company performance:

1. **Feedback from end business customers (B-MeX):** we propose to seek feedback from business customers on company performance following a specific contact the water company. We will build on the work already undertaken by the B-MeX working group

2. **Feedback from Retailers (R-MeX):** we propose to build on and further develop the current R-MeX survey that is currently part of MOSL's market performance framework. The current survey seeks bi-annual survey feedback from Retailers on water company performance across a number of areas.

As noted in our final methodology Ofwat will look to design, develop and test the BR-MeX incentive throughout 2023 and early 2024, specifying the incentive in detail for the PR24 draft determinations in spring 2024. We intend to work with MOSL and the industry to design a robust incentive that is ready for implementation from April 2025.

Ofwat also noted that we would consider to what extent (if any) we should incorporate future MPF metrics that are developed as part of MOSL's current reform of the MPF within the incentive.

Following the implementation of BR-MeX from April 2025 Ofwat's final methodology set out that MOSL will fund, collect and publish the results of the B-MeX and R-MeX survey in-period during the 2025-30 period. Ofwat would then use this published information to calculate a water company's BR-MeX score for reconciliation each year.

We will include the governance arrangements to support MOSL collecting and publishing relevant data on company performance in the market codes (via an Ofwat-initiated code change proposal, which MOSL has published [here]).

# Development process for BR-MeX

In developing the incentive we consider there to be **three key areas of the design** that Ofwat will need to make decisions on prior to the draft determinations in Spring 2024, these are:

| | | |
|---|---|---|
| **Specification of the B-MeX and R-MeX surveys** | **Role of MPF metrics in BR-MeX** | **Incentive and ODI design** |

**Developing and piloting the B-MeX and R-MeX surveys**

Consistent with the development process of the C-MeX and D-MeX incentives for PR19 we are **commissioning a customer research agency to work jointly with Ofwat and MOSL to develop the B-MeX and R-MeX surveys and conduct a pilot** to ensure the underlying surveys are robust for implementation from April 2025.
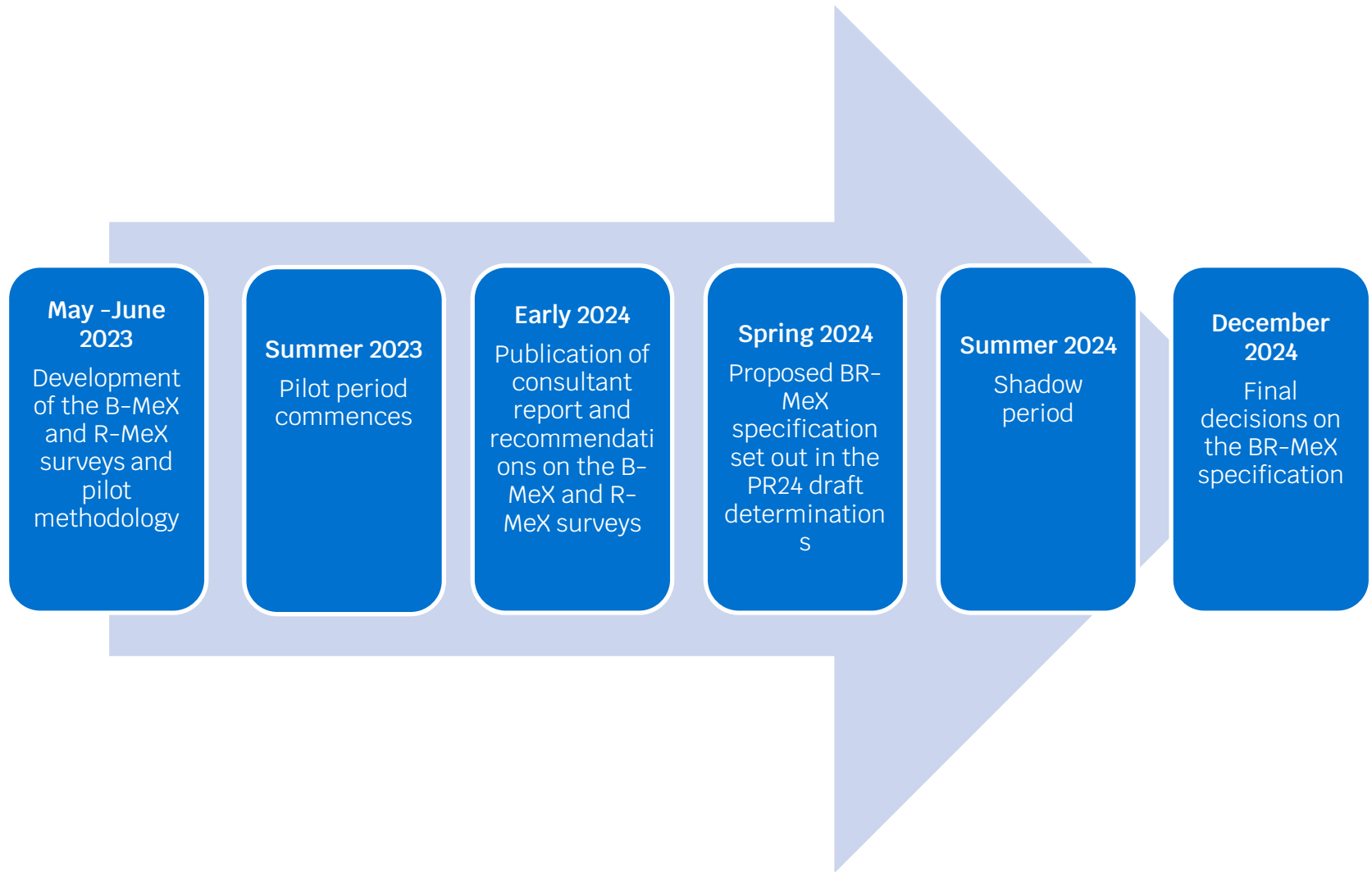
We intend to have contractors in place and have commenced the development of the surveys and pilot in May 2023. We will also run a 'shadow' version of the surveys in 2024 to test implementation, prior to setting on our PR24 final determinations in December 2024.

We note that in order to conduct the B-MeX pilot survey **we will require companies to share business customer contact data with the agency to allow them to undertake surveys of business customers** that have been in contact with their wholesalers. We note this could be via a similar route to the current data provision for the C-MeX and D-MeX surveys.

We will communicate further information to companies once we have an agency in place.

# High level development timeline to draft determinations

**May –June 2023**

Development of the B-MeX and R-MeX surveys and pilot methodology

**Summer 2023**

Pilot period commences

**Early 2024**

Publication of consultant report and recommendations on the B-MeX and R-MeX surveys

**Spring 2024**

Proposed BR-MeX specification set out in the PR24 draft determinations

**Summer 2024**

Shadow period

**December 2024**

Final decisions on the BR-MeX specification

# Our engagement approach with industry

We propose two key methods of engagement with the industry prior to the PR24 draft determinations in Spring 2024:

| BR-MeX workshops | BR-MeX working group |
|---|---|
| Ad-hoc workshops to allow industry to provide views on high level policy issues relating to BR-MeX | Detailed working level discussions regarding the pilot and development of the B-MeX and R-MeX surveys |

To support the pilot we intend to establish a BR-MeX working group that will meet on a regular basis and work with Ofwat, MOSL and our appointed contractors to advise and feed into the B-MeX and R-MeX survey design and pilot period.

The format and frequency of the working group is still to be confirmed but we would expect the group to meet regularly from May/June 2023 and act as the primary means by which Ofwat and MOSL's appointed contractor engages with the industry to design the pilot.

We are considering the most efficient ways of running the working group, and are considering the following options:

1. Allowing all interested participants who express an interest to join the group
2. Allowing a subset of representatives from only four water companies (WaSCs &WoCs), two Retailers and CCW to facilitate more efficient discussions. We note this is similar to the C-MeX and D-MeX working groups at PR19

**We would welcome industry views on the above options**

**We welcome any questions on our approach to developing the BR–MeX incentive**

## Remainder of this workshop

We intend the rest of this session to focus on two topics that we would welcome early industry engagement on.

For each session we will split the (virtual) room in to two breakout rooms to allow for more efficient discussions. Each group will consist of equal numbers of WaSCs, WoCs, one Retailer and an industry stakeholder. Each group will be chaired by Ofwat and after the session has ended there will be time for feedback to the full workshop group.

We will cover the following two topics:

1. Sourcing business customer contact details for the B–MeX survey

2. Considering the role of MPF metrics in BR–MeX

# Breakout session 1 – Sourcing customer contacts for the B-MeX survey

# Sourcing customer contacts for the B-MeX survey (1 of 2)

As set out in the PR24 final methodology, one of the primary metrics for BR-MeX will be a survey of business customer satisfaction (B-MeX) with their wholesaler.

Previous work undertaken by industry via the B-MeX working group set out recommendations for a B-MeX pilot survey. This included:

1.  The survey should be driven by a customer's contact with the Wholesaler, where such contact is between the wholesaler and end customer but initially arises either directly or indirectly via the Retailer (e.g. via the bi-laterals hub)

2.  The survey should focus on the services provided by Wholesalers to business customers in the retail market

3.  The survey should focus on two forms of contacts: direct Wholesaler operational contacts and bilateral contacts via a Retailer request

# Sourcing customer contacts for the B–MeX survey (2 of 2)

A key aspect to the success of a transactional survey (as set out by the B-MeX working group) will be the ability to efficiently source customer contact details where a business customer has been in contact, directly or indirectly, with a Wholesaler.

The B–MeX working group's findings suggested that we should aim to sample both customers that have directly contacted their Wholesaler and those the have contacted their Wholesaler indirectly via the Retailer. Two primary sources of contacts data were recommended:

1. Water company (wholesaler) Customer Relationship Management (CRM) systems where there had been a direct Wholesaler contact

2. The bilateral hub where the customer had been in contact with the wholesaler indirectly via their Retailer

Prior to the appointment of Ofwat and MOSL's contractor **we would like to explore the two sources of potential contact data with companies and the industry and we are keen to hear early views on the ability of companies to provide accurate business customer contact details where there had been contact between the wholesaler and the end customer**.

**Source of customer contacts for B-MeX**

1. Do you have views on any risks or challenges associated with sourcing contact details of business customers where there has been a contact with a Wholesaler (direct or indirect)?

2. Do you have views on the risks and challenges associated with providing this information to Ofwat's appointed agent for the purposes of conducting the B-MeX survey pilot?

# Session 2 – considering the role of MPF metrics in BR–MeX

# Considering the role of MPF metrics (1 of 2)

In our final methodology Ofwat set out that we would **consider whether other key measures of company performance in the business retail market should be included in the BR-MeX incentive**. In particular Ofwat referenced data quality metrics arising from the current MPF reform programme could complement the business customer and Retailer surveys and count towards the score for a wholesaler.

We note the price control framework could provide an opportunity to allow selected MPF metrics to be financially incentivised via PR24 as part of BR-MeX. This could potentially have two key advantages:

1. Allowing for higher financial penalties where Wholesalers are underperforming and the possibility of outperformance payments where companies produce stretching performance

2. Allowing the underperformance payments to flow back to business customers rather than for example being re-distributed across trading parties

If MPF metrics were to complement the B-MeX and R-MeX surveys we consider it most appropriate for the **MPF metrics to form a core part of the BR-MeX score**, as opposed to including them as a gateway to outperformance payments.

**Example Option 1**: BR-MeX score based on B-MeX and R-MeX survey

R-MeX score (50%)
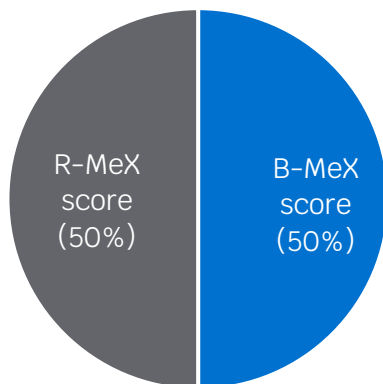
B-MeX score (50%)

**Example Option 2**: BR-MeX score including MPF score

MPF score (33%)

B-MeX score (33%)

R-MeX score (33%)
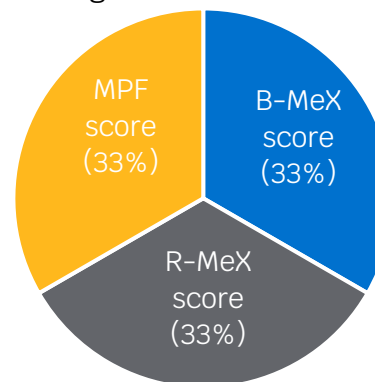
Ofwat has begun considering the question of if and how MPF metrics might usefully be included within a future BR-MeX incentive, including understanding the current development of MPF metrics under the MPF review. **We recognise that the reformed MPF has not been specified in detail yet and therefore we are unable to provide specific options on the specific metrics we would include.**

We are however interested in getting **initial reflections from industry on whether or not, in principle, there is a strong case for MPF metrics to play a role in a companies final BR-MeX score** and the risks and considerations Ofwat should be taking into account when making its decision.

**Role of MPF metrics in BR-MeX**

1.  Do you have any initial views on the merits of including MPF metrics in the BR-MeX incentive?

2.  Do you have any views on the key risks or considerations Ofwat should take account of if we were to include MPF metrics in the BR-MeX incentive?

3.  Do you have any initial views on the types of MPF metrics that should be considered as part of BR-MeX (e.g. data quality metrics)?

# Thank you and questions

For further questions relating to BR–MeX, please contact:

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Or

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Please put any questions or other items for noting in the teams chat