

ESTABLISHING THE MARKET HEALTH CHECK

Conference call with market participants
20 September 2024



Objectives

- The MHC involves undertaking an independent validation process of LPs' commitment to their customers. The MHC also aims to provide:
 - Transparency on what customers can expect to receive from their LPs.
 - Confidence that the market continues to work effectively in the interest of customers and market participants.
 - Opportunities for service differentiation, learning and improvement amongst licensed providers.
 - Reduce the need for WICS' reactive enforcement action.



Promote the overall reputation of the market

A brief recap of where we have got to...

- In May 2021, WICS published a decision to introduce a voluntary market wide process, the Market Health Check (MHC).
- In April 2023, WICS published a letter setting out a critical path for the establishment of the MHC including the development of a voluntary Code of Practice (the Code) which would provide the “baseline” for the MHC process.
- In July 2024, WICS published a further letter setting out:
 - its expectations on the development of the Code with a final version finalised by **4 October**;
 - its expectations on receiving written commitments by LPs by the same date;
 - if WICS receives written commitments from LPs to a shared version of the Code and its assurance, it plans to run a public consultation in October 2024 to implement the Code and consult on the overall process for the MHC; and
 - if WICS does not receive commitments from LPs, or a shared version of the Code by 4 October, WICS is committed to ensuring that a CoP is implemented and plans to reassess its approach as part of a public consultation.
- WICS received from the SSG a Code of Practice that was developed collaboratively with market participants. This represents an important foundational document to support implementation.

The remainder of this presentation outlines some initial draft thoughts on the MHC on the assumption that WICS will receive written commitments from LPs to the Code by 4 October 2024.

Operating principles underpinning the MHC

1. **Customer confidence:** the MHC provides an additional assurance that LPs are upholding their commitments.
2. **Transparency:** the MHC is based on a transparent, replicable and standardised approach.
3. **Proportionality:** the scope and funding of the MHC should take account of the size of LPs, focusing on areas that are material and relevant to customers;
4. **Cost effectiveness:** the MHC should be designed and undertaken in a cost-effective manner;
5. **Learning:** the MHC should allow LPs to monitor their performance against their commitments and give them the opportunity to correct shortfalls and improve their operations;
6. **Collaboration:** the MHC process and governance will be developed in collaboration with market participants and key stakeholders through public consultation.

There are different implications depending on whether an LP commits to the Code (and associated MHC)...

| LPs who commit to the Code | LPs who do not commit to the Code |
|--|--|
| Undertake MHC – October 2025 | WICS compliance audit with existing licence conditions – June 2025 |
| Obtain “kitemark” on successful completion of MHC | No “kitemark” |
| Publish list of LPs on Scotland on Tap and WICS’ website | |
| Level of wholesale prepayments may vary depending on financial factors (1.5 – 3 months)* | Highest level of wholesale prepayments (3 months)* |

*This reflect Scottish Water’s current [Financial Resilience Statement](#)

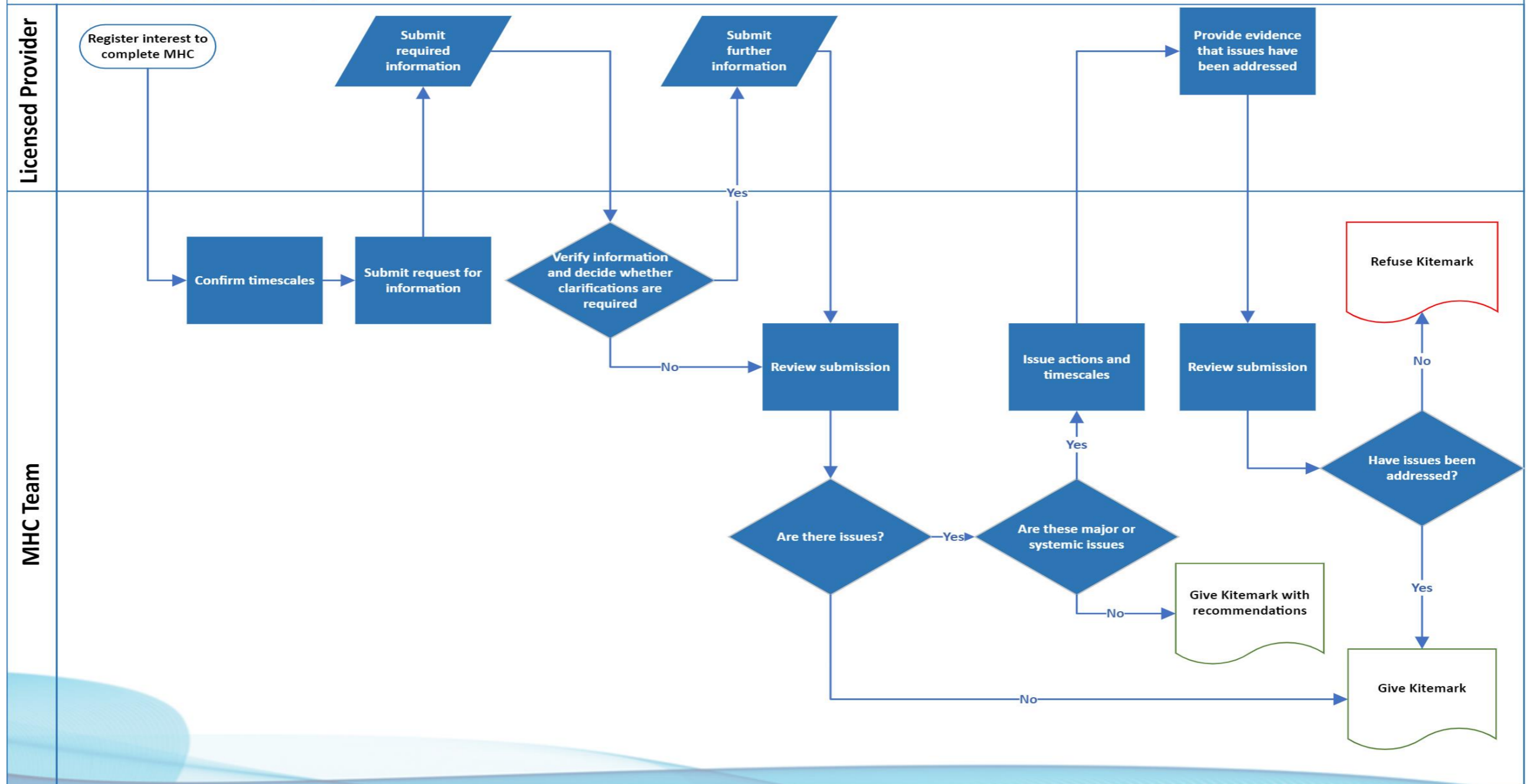
The scope of the MHC would focus on...

| Key Areas | Potential scope |
|-----------------------|--|
| 1. Code of Practice | Choosing a supplier |
| | Ongoing service |
| | Dealing with service issues |
| | Transferring supplier |
| 2. Licence conditions | Compliance with provisions of the Market Code |
| | Compliance with the Disconnections Document |
| | Compliance with duty to provide default services |
| | Compliance with further obligations on charges and related matters |



- LPs who commit to the Code and complete the associated MHC would be subject to a limited selection from area 2 (to avoid checking specific elements of SLCs that are superseded or already covered by the Code).

Market Health Check



Other initial proposals...

- Costs incurred through the MHC could be covered through the licence fees levied by WICS as any ordinary activity carried by WICS. We are not proposing to consult on the introduction of any separate charge or fee.
- The MHC team would limit disclosure of information publicly to whether each LP has obtained a “kitemark”. This would be published on Scotland on Tap and WICS’ website.
- Once a LP has successfully completed the MHC process and obtained its “kitemark”, this could remain valid for a period of 2-3 (TBD) years (or earlier if a LP fails a subsequent MHC).
- To extend the duration of the “kitemark”, the relevant LP could be required to successfully complete a subsequent MHC prior to the end of the effective period.
- Instead of appointing an external individual responsible for the MHC, we plan to consult on the proposal that WICS takes responsibility for the MHC. This is likely to ensure it can be carried out in the most cost effective manner.

Next steps

- Whilst we recognise that there will be future opportunities to refine the Code, we believe that at this stage the focus should be on retaining momentum and supporting implementation. Any material changes to the Code are proposed to be implemented as part of the governance process outlined within the Code.
- We plan to consult on the detail of the implementation of the Code in October/November and, if we receive written commitments from LPs to the Code, we plan to limit changes to the latest version of the Code to any remaining minor (e.g. editorial) issues only (if required).
- As part of that same consultation, we also plan to outline the operating and governance principles underpinning the MHC and will continue to develop the operational aspects collaboratively with market participants.
- We would expect the Code to go live in early 2025 and support a first MHC after a period of at least 6-months.
- If WICS does not receive written commitments to the Code from LPs it will reassess its approach.

THANK YOU

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WICS Economic
regulation for
Scotland's water

