



## **Smooth operations: how is greater standardisation in water retail operational processes best achieved?**

A thought leadership paper from CGI and The Water Report

As we head towards the end of the first year of water retail competition, it is natural to reflect on what has gone well but also on what can be done better. Driving improvement for customers going forward is essential. One theme which elicits agreement among stakeholders is that bilateral arrangements are ripe for greater standardisation.

## The story so far

A centralised portal, to satisfy the common need to coordinate operational processes, built alongside the Central Market Operating System, was originally scoped out by CMOS-builder CGI. The portal would be distinct from CMOS but linked to it, with features for data validation, pre-filled forms, and centralised monitoring of performance. Graham Hainsworth, CGI director of consulting for the water sector, reports there was interest in the proposal, but *“at that time, companies understandably had their heads in CMOS”*; time was tight and the sector had to concentrate on ensuring the core arrangements that would allow customers to switch were fighting fit for 1 April. So, CGI’s proposal for a Central Operations Portal was put on hold and subsequently each wholesaler and retailer made their own arrangements.

Samir Rahim, MOSL’s IT director, explains the nascent market operator provided the opportunity for wholesalers to follow a common bilaterals approach by supporting a standard specification. *“However, not everybody followed the standard approach and different richness of functionality emerged. Retailers have found it hard to engage with multiple wholesalers and a variety of usage behaviours have followed – some might call the business support desk, some will email and so on.”* The result is there are wholesalers and retailers interacting in a variety of ways. Rahim describes this simply as *“inefficient”*.

At nine months in to live operation, readiness pressures have eased, market processes have proved robust, and interest in revisiting bilaterals arrangements is growing.

Rahim reports this was a key agenda item at the first meeting of MOSL’s new Digital Strategy Committee, and that the industry’s IT directors are keen to look at this again. Anglian Water’s head of wholesale market services Don Maher sees greater standardisation as *“a case of when rather than if”*. Meanwhile, Business Stream chief executive Jo Dow voices a need to act fast. *“Unless something is done quickly, this could fall by the wayside”* she cautions, noting that the longer action remains uncoordinated, the more individual wholesalers will invest in their own systems. She adds too that at this stage, just a few months in, we are very much *“at the tip of the iceberg”* in terms of the difficulties patchy operational arrangements present because *“the market is not operating at volume yet”*.

## Issues with variability

Few would dispute Rahim’s observation that the existing bilaterals situation is inefficient. But what are the implications for different groups of stakeholders?

**Customers** – How non household customers experience the market is far from confined to how they experience the switching process. Smooth, two-way operational exchange between wholesalers and retailers on an ongoing basis is essential. For instance, if the customer requires a new meter, their retailer must be able to request that service from the wholesaler; likewise if the wholesaler has to communicate a service interruption to the customer via the retailer, it is critical the process is seamless and transparent. At present, the customer experience is at risk of being patchy, depending

on what arrangements the wholesaler and retailer in question have in place.

A centralised operations portal would not only standardise processes but could also drive up operational performance by making it much easier to compare how different players are doing. Hainsworth explains that *“A common operations portal could be used to measure operational performance, just as CMOS measures market performance. This transparency would shine a light on companies’ performance and help drive improvement”*.

Anglian’s Maher agrees that standardisation would *“help drive improvement for customers”*.

**Retailers** – You don’t have to look far to find a retailer who would welcome with open arms a simplified approach. Jonas Reed, director of strategy and regulation at Water Plus, describes the existing situation, whereby national retailers have to negotiate 21 different ways of interacting as *“an inherent inefficiency in the market”*. He cites the example of Water Plus having to have 42 windows open just to look at planned and unplanned events for a single customer. Water2business managing director Charley Maher agrees, saying *“there are so many examples like that...there’s definitely an opportunity to make this work better”*.

Business Stream’s Dow comments on the variability of interacting with nearly two dozen wholesalers: *“Some wholesalers have been very proactive. Others – not so much.”* She says centralised arrangements would be *“ideal”* and that *“anything to simplify and standardise would be really welcome”*.

**Wholesalers** – We might expect wholesalers to feel more equivocal about moving to a new arrangement given that all have invested in their own systems. However, individual systems that are already built are not cost-free; they will incur maintenance and upgrade costs. For a central system, upgrade and maintenance costs are shared which could prove beneficial.

Rahim adds an additional consideration: that PR19 markets (for bio-resources and water resources) will necessitate bilateral arrangements, so investing in operational improvements now could reap rewards for wholesalers as they grapple with incoming challenges. *“Anything the industry can do in retail, supported by MOSL, will support PR19”* he counsels.

## Standardisation options

If it is safe to say in principle that there is appetite for change from market participants on both sides of the wholesale/retail fence, three key questions present themselves. How would greater standardisation best be achieved? Who should pay for any new costs incurred? And what role should MOSL play?

Rahim is clear that it is for market participants, rather than MOSL, to decide on a way forward. He says the subject will be explored by IT leaders from across the industry via the Digital Strategy Committee. MOSL will *“support them to come up with a solution”*. He suspects the market will want MOSL to play a role of some kind: *“There’s strong industry support for us to do this. But we need to look at the detail, do the due diligence and see how the cost benefit pans out.”*

He says there are three main options up for consideration:

- A non-technical solution, whereby MOSL could set standards for operational interactions centrally and then allow the market to meet these as it wishes.
- A mid-level solution, where MOSL plays a formal monitoring and governance role for centrally agreed standards.
- A top level solution, involving the development of a central platform to be built by a third party and taken under MOSL's auspices.

It is fair to say at this stage that views vary. Some take Rahim's line and seem genuinely open-minded. Water Plus' Reed, for instance, wants to see harmonisation but comments *"whether that's a shiny bilaterals portal or simply just standardisation...I don't know what the answer is yet"*.

Others, perhaps thinking of low retail margins, seem to favour a non technical solution. Wave chief executive Lucy Darch, for example, says integration is important but the focus should be on matters like data protocols and file formats rather than on systems investment. From the wholesale side, Neil Gillespie, United Utilities' director of energy and commercial strategy, comments that it was a *"missed opportunity"* for a portal to be de-scoped from the programme and that he supports greater standardisation now. But he makes the point that any new centralised system would come at a price when his company has only recently invested in its own solution.

Anglian Water's Maher, however, favours a progressive approach despite his company's existing investment. He agrees that sorting the basics on standardisation is a sensible move but is

keen for the market as a whole *"to move forward, not go to a lowest common denominator approach"*. He explains that Anglian is proud of the portal it has put in place already. This has many features that *"go beyond the code requirements to offer a good customer experience"*. Understandably, he doesn't want to see this investment wasted, but equally he appreciates greater standardisation would be beneficial. A solution, he suggests, would be for a centralised system to take the form of a hub which can integrate with participants' existing set-up. *"We need to accommodate a range of wholesalers [from those like Anglian who want to add value downstream to retailers to those who simply want to perform the basics efficiently] and retailers [from the large national players to the smallest start up],"* he says, *"and something that sits in the middle and acts as a hub could do that."*

MOSL's Rahim says his personal view is that a central platform would be the best way forward. However he appreciates the *"cautious voices"* among the trading parties and says a key consideration of any movement will be who should bear the cost.

## Governance

Rahim makes it clear that progressing bilaterals is very much on MOSL's agenda and that in terms of details, it will be guided by what its members want. Should there prove to be an appetite for a centralised hub, MOSL could follow the route adopted for CMOS, where it took the lead from the outset and commissioned a solution. Alternatively, it could be a trading party-led initiative that could effectively be passed on to MOSL to govern when and if it secures a mandate.

Anglian's Maher sees benefit in MOSL taking on a governance role at some stage: *"The structured way it manages market data, and its central, unifying voice is helpful"*. CGI's Hainsworth agrees. He notes that while there are no hard and fast rules about MOSL's role on the governance of operational terms, *"it has a role to improve the performance of the market generally. This includes improving the operational performance to ensure positive customer experiences. It doesn't stop with market processes."*

## Central Operations Portal

As explained above, CGI originally proposed a Central Operations Portal before the market opened. It appreciates things have moved on and that we are not starting from a greenfield site.

That accepted, CGI still sees real strength in many features of its original COP proposal. On top of ticking the very fundamental boxes of improving the customer experience, increasing efficiency for all and simplifying retailers' lives, Hainsworth highlights the additional benefits that would flow from a system fully integrated with CMOS:

**Bridging the divide** – There is clear demarcation between market and operational processes at the moment. Hainsworth says a *"wall"* was rightfully put up at market opening on level playing field grounds. However *"we must make sure that doesn't become a barrier to the effective operation of the market"*. He notes that many processes involve both market and operations processes – a meter exchange, for example. He mulls: *"Wouldn't it be good if the tools available provided for end-to-end workflow?"*

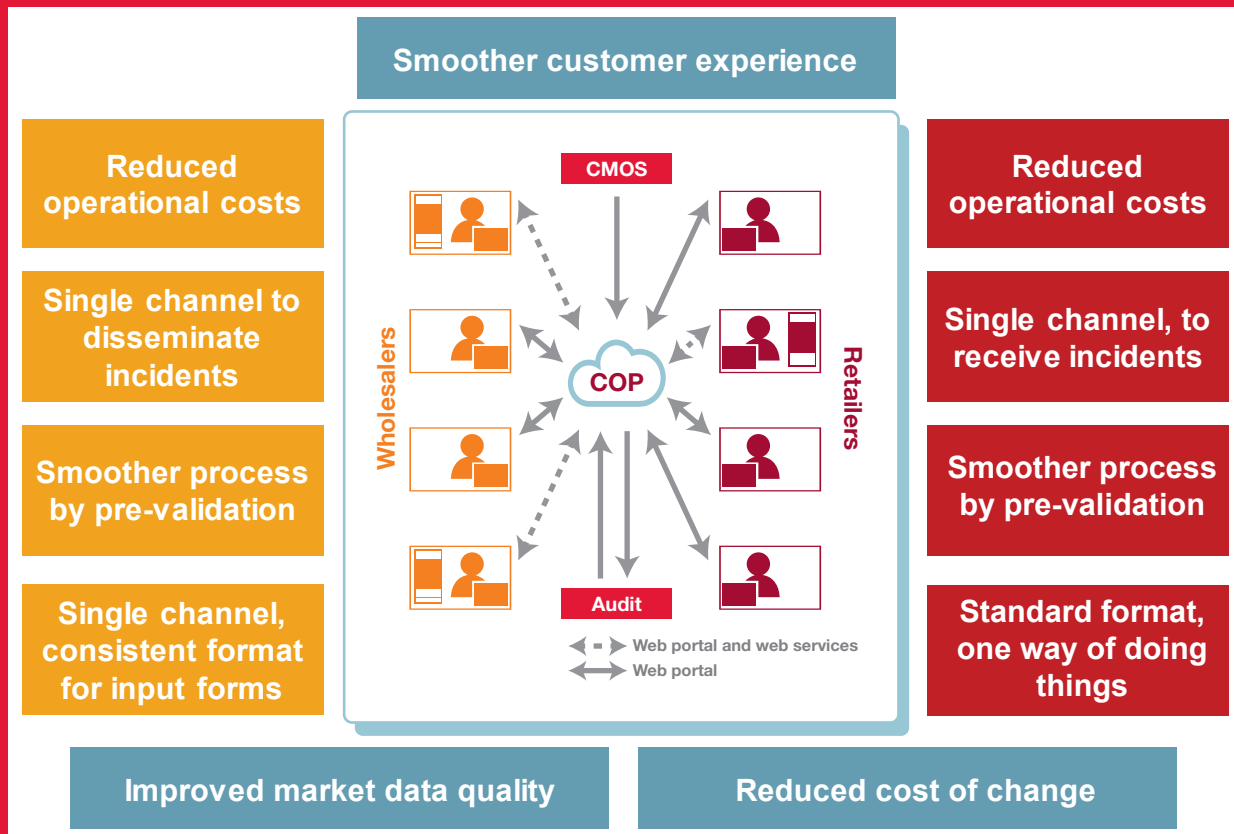
**Data quality** – This is a key concern for all stakeholders from the government and regulator down to customers who may find themselves on the receiving end of inaccurate bills. A Central Portal linked to CMOS would be *"a great opportunity to improve data quality"* Hainsworth enthuses. Pre-populated forms with actual CMOS data, presents a validation opportunity for the operational teams. Resulting changes would be fed through to CMOS, thus removing data errors.

**Ease of use** – Operating processes should be as similar as possible to the market processes trading parties are already familiar with, for instance in look and feel, data presentation and search mechanisms. But above all, market participants should have one place to go and one way of enacting the operational processes.

**Reduced costs** – A common portal will allow single operational interface and a single process, rather than multiple variants. This must lead to lower cost operations. Also, a common solution would mean future operational changes can be implemented once only, with the cost of those changes shared amongst all participants.

**CGI has supported this thought leadership paper to contribute to the industry's conversation.**

## Central Operations Portal (COP)



### Why a central operations portal?

A single, central operations portal will help improve market data quality, increase efficiency for retailers and wholesalers alike, and importantly will lead to smoother customer experience by:

- Providing retailers with a single, standard interface to all wholesalers: one place to go and one way of doing things.
- Improving industry data quality via user-friendly forms, pre-populated with central CMOS data, and a link to update incorrect data.
- Providing wholesalers with a single channel for disseminating important incident information to all affected retailers.
- Ensuring wholesalers receive requests in a single standard format, with data that is pre-validated against the central CMOS data.
- Reducing the cost to industry of meeting changes through economies of scale.

### Why CGI?

Founded in 1976, CGI is the fifth largest independent information technology and business process services firm in the world and a pioneer in technological innovation in the utilities sector for over 30 years. We are at the heart of the competitive utility markets, having designed, built and currently operating 12 of the 18 central utilities markets in operation around the world. These include: the UK electricity market central system (BSC Settlement) for ELEXON; the data systems at the heart of the smart metering implementation programme for the Data Communication Company (DCC) and the central market system for Market Operator Services Ltd (MOSL) to support the operation of the non-household English water market. We have also supported the creation of the Scottish competitive water market.

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