



Ofwat consultation on payment terms between wholesalers and retailers.

Introduction

0.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. CCWater has four regional committees in England and a committee for Wales.

0.2 We welcome the opportunity to comment on Ofwat's consultation on the payment terms for wholesalers and retailers. We have raised concerns in the past about the lack of financial transparency by water companies¹. Therefore, it is important that any new arrangements are as clear and open as possible to reassure customers that the new wholesale/retail split will not leave them at a financial disadvantage.

0.3 The assessment criteria established by the Open Water High Level Group provides a useful framework against which to judge the options for setting payment terms. Ofwat's preferred approach scores highly against these criteria and is an appropriate compromise between setting standard terms as a benchmark for payments and allowing a degree of flexibility, without excessive regulatory burden, for non-standard agreements to be reached.

Questions

Q1 Is our proposal to set standard terms, but to allow companies to agree to vary those terms, appropriate?

1.1 We agree with the proposal to set standard payment terms to ensure there is a benchmark to which all existing companies and new entrants must adhere. Consistency in approach will be important, at least in the early years of the new structure, in ensuring that customers are not disadvantaged due to the specific activities of their company. Allowing the variation of standard terms where there is agreement between the retailer and wholesaler will allow services to be tailored to the needs of the customer and can help to drive innovation (in services and tariffs).

Q2 Are our proposals around publication of non-standard payment terms appropriate?

2.1 Allowing bilateral agreements between the retailer and wholesaler introduces a degree of flexibility into the market. It is important that such agreements around non-standard payments are made public to ensure fair and open competition to avoid disadvantaging a new entrant who may be competing against the existing retail business of the wholesale company.

2.2 However, Ofwat will want to consider the likelihood that some customers may choose to make use of self-supply licences in order to provide their own retail services. These customers are likely to be sensitive about the terms of their contract with the water wholesaler being made public.

Q3 Is a settlement period of one day appropriate?

¹ In our work in pressing companies to share the benefits of financial outperformance with customers, and in media statement in response to issues relating to companies' tax arrangements .

3.1 A settlement period of one day seems the most appropriate for the England and Wales market at present. The nature of water usage and existing tariffs mean that a shorter settlement period is not currently required, while one day allows a degree of flexibility for companies when they are trading that a longer period could restrict.

3.2 However, it is important that Ofwat keeps this under review and is able to react to changes in the sector so that a one-day settlement period does not act to inhibit the development of innovative approaches and tariffs that new entrants may want to take advantage of to optimise their businesses.

3.3 In the energy sector, tariffs and networks are optimised around periods of peak usage with tariffs designed to allow customers to take advantage of cheaper prices at non-peak times where their usage is flexible enough to allow this. There may be opportunities for similar innovation in the water sector that a one day settlement period could prevent. It is encouraging to note that Ofwat has acknowledged in the consultation document the need to review the settlement period and make it more granular if the development of time-specific tariffs demands this.

Q4 Is it reasonable to apply the same payment terms to all products and services in the markets?

4.1 Yes, given the payment terms for England and Wales (in arrears) are different to those in Scotland (in advance) the distinction between continuous and event-based services does not apply. Therefore, it is administratively simpler to bill for all services in one invoice since all costs will be known. However, Ofwat will want to consider whether wholesalers will apply a (greater) risk premium to accommodate those cash flows.

Q5 Are the details of the standard payment terms - billing period, payment period and collateral requirements - appropriate?

5.1 We agree that proportionate credit requirements and consistent financial checks should be in place for new entrants in order to ensure there are able to finance their business. This will help to protect customers. We are pleased to note that Ofwat has committed to a proportionate approach and look to the regulator to ensure that it strikes the right balance between protecting customers and not creating an unfair barrier to entry when setting these requirements.

5.2 Ofwat will need to be mindful of potential unintended consequences resulting from the resettlement process, taking account the lessons learnt from the energy sector where under-recovery of revenue had the potential to lead to price volatility for customers.

5.3 Invoicing within 5 working days of the end of a billing period is a reasonable target to ensure the timely collection of revenues but a balance has to be struck between allowing for meters to be read and customer invoicing. The suggestion that meters will be read every six months means that a customers could receive a number of estimated monthly bills before an actual read is taken. This could lead to a significant degree of re-billing, with its associated cost, as the customer responds to each monthly bill with its own actual reading. Companies may choose to increase the frequency of meter readings for these customers where practicable, particularly where AMR technology is available. However, the consolidation of this information may require a longer time period than the suggested five days. Customers may be amenable to this if it presents subsequent difficulties.

Enquiries
Enquiries about this consultation response and requests for further information should be addressed to:
James Mackenzie
Policy Manager
Consumer Council for Water
Tel: 0161 200 8541 Mobile: 07810 815 756
E-mail: james.mackenzie@ccwater.org.uk