

Ofwat: Payment terms between wholesalers and retailers – a consultation

Consultation closing date 28 October 2013

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Consultation details

Areas under review

The purpose of this document is to consult on Ofwat's preferred approach to setting payment terms between wholesalers and retailers in the water and wastewater markets in England and Wales. Following this consultation, we will publish statement on the form of payment terms.

The consultation opened on 11 October 2013 and closes on 28 October 2013. Ofwat plans to publish a final version of the guidance in late 2013.

Severn Trent Water are pleased to have the opportunity to pass comment and input in to Ofwat's consultation documentation. We are taking an active interest in this area and fully support competition.

Consultation questions

The 5 consultation questions are shown below along with the Severn Trent response.

1. Is our proposal to set standard terms, but to allow companies to agree to vary these terms, appropriate?

The guidance covers the key aspects of standard terms, however it may be useful to leave advance payment as an option for companies to determine as this could be used to negotiate discounts for retailers and reduce the risk of defaulting on payments. If companies agree variations to these terms (e.g.: longer payment terms), access prices would need to reflect these.

Indicative access prices should be set against these standard terms, if companies negotiate separate terms, access prices would need to be adjusted for these terms.

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

Yes, the document gives a high level overview of what is required. This appears to be suitable but is not explicit on what is required.

3. Is a settlement period of one day appropriate?

Yes, it is currently appropriate as discussed in the paper. This may require a review as competition evolves.

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

There may be instances where the standard payment terms are not appropriate, particularly for non-direct services.

5. Are the details of the standard payment terms – billing period, payment period and collateral requirements – appropriate?

The document could improve how it covers the details for standard payment terms.

For the Billing period, one month is appropriate however it may be appropriate to state up to one month.

Payment period – It would be useful to understand the assumptions for a 20 day payment period; 30 day payment periods are included in the PR14 submissions. There is also an opportunity to include a recovery process and a disputes process. If these processes are not yet developed it would be useful to state this and indicate that the guidance will be updated accordingly once established. It would also be useful to understand the reasons for invoicing on the 5th working day rather than the 1st working day, if the meter reading is available.

Collateral requirements – Consideration needs to be given on whether a Bank guarantee could act as a barrier to entry. There is an opportunity to include Bonds as an collateral requirements option.

We understand that there is further work being completed through the Open Water Programme and it would be useful to keep an online version of this guidance updated with any new relevant publications.