

Call for Inputs: Impact of COVID-19 on the business retail market – late payments

Introduction

The coronavirus pandemic is resulting in some business customers not being able to pay their bills on time, which will consequentially affect the ability of business retailers to pay wholesalers on time. As signalled in the joint communication from Ofwat and MOSL on 19 March 2020, we are progressing urgent code modifications to waive performance charges and to ensure short term estimation better reflects less water being used by business customers. We expect these to provide some relief, but are aware that further action is also likely to be required to reflect the risks posed by late paying customers and potentially increases in levels of bad debt.

To address the issue of late customer payments, we are currently minded to make an urgent code modification, which will be implemented in time for the settlement runs that take place in early April (and possibly also apply to those taking place in early May). In parallel, we will progress a code change that will provide a more enduring solution to late payment terms for the period of the coronavirus pandemic.

Current high level options that we are considering are as follows:

- extending the current payment terms set out in the wholesale retail code;
- waiving a percentage of settlement charges; and
- an approach that reflects what customers pay (which could also include a mechanism to appropriately share the cost of late payment).

To inform the development of these code modification we request the following information from stakeholders by midday, Wednesday 25 March. These can be emailed to codechange@ofwat.gov.uk

1. Questions for retailers

1. How would you propose to address the challenge associated with delayed payment from business customers in a way that reflects the impact in terms of risks to both wholesalers and retailers appropriately, and which is in the best interests of the market and the customers it serves?
2. Please set out to what extent you have discussed (1) with wholesalers and to what extent those wholesalers support your proposal.
3. To what extent will a code modification allowing retailers to use a vacant or temporary disconnection status for business premises that are closed due to the coronavirus ameliorate the need for additional action to address the risk of late payments? What could be done to avoid double counting?
4. Please provide information on:
 - a) the amount of primary charges normally payable per month to each wholesaler
 - b) the amount of primary charges you expect to be able to pay at the end of March
 - c) the amount of charges you expect to be able to pay at the end of April
 - d) of those customers paying late, what % do you estimate are closed and not using water and what % do you estimate are late in paying for other reasons?
5. What facilities do you have in place to pay the primary charges should there be a shortfall in revenue from customers? In the event that you had to draw on facilities or borrow money to make full payment in March, what would be the expected costs? Please also describe and evidence (with calculations) any other implications of funding this borrowing.
6. What stress testing have you undertaken in relation to reduced cash flows from customers and what mitigation have you put in place to maintain financial resilience over the longer term? How sufficient do you consider your plans to be for the anticipated reduction in cash flow (and if insufficient, why and how realistically could that be remedied)?
7. What are the implications for your business of a reduction in non-household demand of 10%, 25% and 50% over a prolonged period of time?

2. Questions for wholesalers

1. How would you propose to address the challenge associated with delayed payment from business customers in a way that reflects the impact in terms of risks to both wholesalers and retailers appropriately, and which is in the best interests of the markets and the customers it serves?
2. Please set out to what extent you have discussed (1) with your business retailers and to what extent those retailers support your proposal.
3. To what extent will a code modification allowing retailers to use a vacant or temporary disconnection status for business premises that are closed due to the coronavirus ameliorate the need for additional action to address the risk of late payments? What could be done to avoid double counting?
4. How have you taken into account lower than expected non household revenues as part of your financial resilience testing? Please set out what measures you have in place to mitigate the impact of this on your cash flow.
5. Please explain and evidence (with calculations) the impact of reduced cash flow on your business and, to the extent that there is a requirement to draw on liquidity facilities to cover a shortfall in revenue from business customers, the costs associated with accessing these. Please also describe and evidence (with calculations) any other implications of accessing your liquidity facilities, including any impacts on end customers (household and non-household).
6. Please explain (and provide evidence to support) any other implications of the proposal on your business, the wider business retail market and customers.

3. Questions for all other stakeholders

1. How would you suggest the challenge associated with delayed payment from business customers is addressed in a way that that reflects the impact in terms of risks to both wholesalers and retailers appropriately, and which is in the best interests of the markets and the customers it serves?

2. Do you have any other information or evidence that is relevant to the issue of customers being unable to make payments in a timely way as a result of coronavirus?