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## **Coronavirus and the impact on the business retail market**

The outbreak and escalation of coronavirus is already having a profound impact on the lives of customers and communities, and this is likely to be the case for many months ahead. We are clear that both MOSL and Ofwat, and the water sector as a whole, must step up and focus on doing whatever is necessary to maintain essential services to customers and the environment throughout this period and to avoid any disruption to supplies.

We are already aware of the significant disruption to the activities of many businesses, charities and other non-household customers across the country, and recognise that this presents an unprecedented challenge to us all. In particular, the impact on the operation of the business retail market is already being felt and we agree that there are some very significant issues which the sector needs to look at collectively as an industry, and swiftly.

Over the past week or so trading parties have identified a number of issues that must be addressed to minimise disruption to the market, the trading parties who are operating within it and ultimately business customers. We are developing a package of initiatives to take forward to address these issues some of which we think can and should be addressed as a matter of urgency, whereas others are likely to require further thought and consultation with the sector, albeit on an expedited timescale.

### **Market performance standards and charging**

Various elements of the market performance framework affecting both wholesalers and retailers are undoubtedly going to be impacted. We recognise that 'Business As Usual' activities, such as meter reading, is likely to be significantly affected. Given the Government's latest request to limit all non-essential contact, it is likely that meter reading rates will continue to decrease.

Where it is feasible, safe to do so and within Government guidance and measures relating to social distancing, meter reading activities should continue to be undertaken. Alternatively, customers could be encouraged to provide meter readings, where possible.

**However, during the pandemic, we think that it is unreasonable to penalise trading parties for failing to meet market performance standards due to factors outside of their control. Therefore, we will be proposing an urgent Authority Timetabled Change Proposal to the market codes that postpones the levy and collection of charges for market performance standards for a time-limited period commencing 1 March 2020. This will be subject to continuous monitoring and review of market data by Ofwat and MOSL, so as to ensure that charges are reintroduced at the appropriate time. We expect this code change to take place within a week, and to apply from the charges that will have been applied during March.**

We will also be taking steps to ensure performance charges which have already been invoiced, are available for redistribution to members in accordance with the Market Arrangements Code rather than use them for longer term market improvement projects.

And we will look to ease the cash burden on trading parties by allowing retailers to offset 2020/21 Market Operator Charges against these performance charges (based on the specific amount that would have otherwise been returned to them in September 2020).

Unfortunately, in order to protect MOSL's cash flow it will not be possible to extend this benefit to wholesalers.<sup>1</sup>

### **Payment terms, delayed payment and reduced demand for water**

Where business customers temporarily close or experience materially less demand due to the coronavirus, then primary wholesale charges based on initial settlement runs will be higher than actual usage, as per the current settlement process set out in the market codes. Retailers will remain liable for these charges, but are unlikely to be able to recover them from customers, as customers will rightly claim that they have used and should pay for less water.

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<sup>1</sup> The Market Arrangements Code (MAC) enables MOSL to maintain a "combined" reserve of at least £2m of MPS and OPS charges to fund its working capital requirements and smooth out month-on-month fluctuations in cash flow. It will not be possible for MOSL to return MPS and OPS Charges to Wholesalers earlier than is set-out in the code as MOSL needs to retain these charges to fund its working capital requirement and ensure it can continue to operate.

**To address this issue, Ofwat and MOSL will be progressing an urgent Authority Timetabled Change Proposal to the market codes. Our currently preferred option is to allow premises that have closed temporarily to be marked as vacant for the purposes of settlement for the duration of the coronavirus pandemic.**

Notwithstanding this code change, retailers could still experience cash flow issues – at least in the short-term. We are aware that the consequential impact on retailers in the business retail market could be significant, and that there is a high likelihood that there will be a number of retailers who will be unable to collect sufficient funds from customers in order to meet wholesale payments as they fall due, as prescribed under the current market codes.

We recognise that there will need to be an approach that is appropriate to all wholesaler-retailer pairings in the market. We are also mindful of the need to limit the exposure of wholesalers to unreasonable financial risk, while recognising there will inevitably need to be an element of ‘pain sharing’ between parties, and so the solution in this area will need to take this into account, including interactions with the PR19 settlement .

**To address this issue, we will be progressing with MOSL an urgent Authority Timetabled Change Proposal to the market codes to reflect the fact that some business customers will be delayed in paying their bills. Our currently preferred option is to adjust the proportion of primary charges that would be payable to wholesalers in the initial settlement runs.**

**In these circumstances it is essential that wholesalers work actively and swiftly with relevant retailers to consider and develop solutions in relation to payment terms in particular, as is provided for in the Codes. We would very much support Wholesalers and Retailers working collaboratively to propose solutions to the challenges associated with business customers being delayed in paying their bills, which are in the best interests of the market and customers. Due to timing constraints we would welcome joint proposals from wholesalers and retailers as soon as possible.**

## **Disconnection for non-payment**

It is clear that customers may have difficulties in making timely payments during this time, in particular if their premises are temporarily closed. During this time, we do not

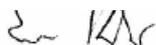
think it is reasonable for retailers to request disconnection for non-payment where the delay in payment is caused by factors related to coronavirus.

**Ofwat is considering potential urgent changes to the Customer Protection Code of Practice to require retailers to treat non-payment during these times as force majeure events and so do not qualify for disconnection (subject to suitable limits).**

## **Non Payment**

The Government has recently announced a **support package for business** to protect against the economic emergency caused by the coronavirus. We will be monitoring the market closely to understand whether coronavirus ultimately leads to non-payment of bills as opposed to delayed payment. We will engage further with industry and interested stakeholders about what further actions could be required to address this risk materialising.

Kind Regards,



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Sarah McMath