



The voice for water consumers
Y corff sy'n rhoi llais i ddefnyddwyr dŵr

CCW's response to the Water Services Regulation Authority (Ofwat) - Proposals to address liquidity challenges and increases in bad debt

1. Introduction

- 1.1 CCW is the independent voice for business and domestic water consumers in England and Wales. We welcome the opportunity to respond to this consultation.
- 1.2 Ofwat is consulting on a range of options for supporting the business retail market during the current Covid-19 pandemic. It is seeking stakeholder information and views to strengthen the following proposals:
- Providing a period of liquidity support to retailers in the market, while also requiring retailers to pay wholesalers each month a minimum of (around) 70% of the wholesale bills due, or a proportion equivalent to the invoices they have received from their own customers, whichever is the higher.
 - Allowing wholesalers to charge interest on deferred payments, with retailers being incentivised to use other sources of liquidity where possible, and requiring retailers to repay deferred payments from August 2020, with all amounts repaid by end of December 2020.
 - Providing some protection for retailers from exposure to increased bad debt. This could either be done by adjusting price caps under the Retail Exit Code, or by capping exposure to bad debt, with some recovered from business customers over time.
 - Considering protection for wholesalers from associated bad debt exposure, with a possible cap on this arising from the liquidity arrangements.

2. Response to specific questions

- 2.1 **Q1) Do you agree with the objectives as set out, which will guide our decisions about what are the preferred options?**
- 2.2 Generally, we agree with the objectives and consider them to be customer centric.
- 2.3 In particular, we welcome and support the principle objective to ensure protection for all customers, many of which are experiencing unprecedented uncertainty and financial difficulties as a result of the COVID-19 pandemic.
- 2.4 As well as ensuring that the solution to the liquidity issue does not cause further hardship for customers, we believe that the Customer Protection Code of Practice (CPCoP) must also be kept under review. It is important that financial relief for retailers is being passed onto business customers. This could take the form of payment breaks, where they are needed.

- 2.5 We acknowledge the possibility that the level of bad debt accumulated during this crisis could exceed what was envisaged by current market arrangements. However, we would be concerned if business customers were being required to bear sole responsibility for this through increased charges. Given the financial hardship that many will be experiencing, we expect customer protection to be the guiding principle during this decision making process.
- 2.6 **Q2) Excluding customers with temporary vacancy flags, what percentage of remaining wholesale charges are you currently able to recover from customers each month? Please explain why these customers, who are still open for business, are late paying (or not paying in full). Please also provide evidence to support your response.**
- 2.7 Even though this question is primarily for retailers to answer, we recognise that the recovery of remaining wholesale charges will be impacted due to many business customers struggling to pay their water bills during this time. However, we recognise that not all business customers will be adversely affected, so the impact on retailers will largely be determined by their specific customer base.
- 2.8 Feedback from some business customers to CCW shows that payment options, including payment breaks, are needed and we consider it should form part of the support being offered by retailers. As this assistance may only be possible through a certain deferral of wholesale charges, we ask that this is taken into account where there is evidence such support is being provided.
- 2.9 **Q3) Please explain how you expect your response to question 2 to change over the next month or two.**
- 2.10 At this stage, we do not know the full impact the COVID-19 crisis is having on the market and customers. This will be determined by the period of restrictions, with the impact on business customers increasing the longer it endures. Therefore, the full impact on business customers will not be known until after the restrictions are lifted, with the resilience of some businesses being unclear until this point.
- 2.11 **Q4) Which option for dealing with the remaining liquidity gap facing business retailers do you think would be in the best interests of customers, the market, and best reflects the objectives we are trying to achieve?**
- 2.12 A combination of options 2 & 3, as preferred by Ofwat in the consultation, is our preferred approach. This would mean that retailers would pay the wholesalers with some of the revenue from business customers' bills, and fill the gap where a minimum set proportion of wholesaler charges is not met. The minimum proportion required is Ofwat's decision, but we would not want this to put at risk the financial assistance that retailers are offering customers at this time.

- 2.13 We believe that the best interests of customers need to have primary importance in this decision making process. During this unprecedented time of financial hardship, we do not want to see negative consequences for business customers that will further exacerbate an already difficult situation.
- 2.14 **Q5) How should we determine the financing costs associated with any liquidity provided by wholesalers?**
- 2.15 We acknowledge the validity of the stated options for financing the cost of liquidity, and the solution could be financed by a combination of all three options. As a result of the current low cost of borrowing, wholesalers may be in a better position to provide liquidity.
- 2.16 **Q6) Do you agree that the financing costs associated with any liquidity provided by wholesalers should be borne by retailers?**
- 2.17 We agree with the point made in the consultation that if retailers are required to bear the financing costs of wholesaler provided liquidity, this should encourage them to access alternative sources which may be more affordable.
- 2.18 However, if this cannot be obtained elsewhere, we would be concerned if retailers placed increased financial demands on business customers in order to minimise the need to access wholesaler provided liquidity. If this is to be the solution, we would argue existing protections under the CPCoP need to remain in place, and that consideration should be given to providing payment holidays for those remaining customers who are not in debt, but may be suffering financial hardship as a result of continuing to pay charges.
- 2.19 **Q7) Do you agree that retailers should receive liquidity support at least until the end of July 2020? And that all additional liquidity provided by wholesalers should be repaid by the end of December 2020?**
- 2.20 We are unable to agree the dates of July and December until we are more certain of when support can start to 'unwind'.
- 2.21 We believe that liquidity support for retailers, and the associated benefits for customers, should continue for as long as the restrictions on business customers remain in place. Given the increase in customer financial hardship that will occur the longer restrictions continue, we do not want the 'unwinding' of these measures starting too soon. We, therefore, welcome Ofwat's proposal to consult on this again in the summer to allow the market to decide whether an appropriate point has been reached.
- 2.22 We acknowledge the concerns regarding the liquidity support period continuing for too long. However, throughout COVID-19 restrictions it is vital that business customers continue to receive as much protection and support as possible. While not necessarily desirable from a market perspective, this may only be achievable by a continued deferral of some wholesaler charges by retailers, and the maintaining of appropriate liquidity support from wholesalers.

- 2.23 **Q8) Should retailers incur all bad debt costs from non-household customers defaulting, or should some of these costs be recoverable beyond a pre-determined threshold?**
- 2.24 We agree that some of the costs should be recoverable beyond the threshold, but we would not agree with any adjustments to the price caps. These costs should be recoverable over a time period as determined by Ofwat, but the costs customers are being required to pay should be kept to a minimum.
- 2.25 **Q9) If bad debt costs from non-household customers defaulting should be recoverable beyond a pre-determined threshold, then do you agree that retailers should be expected to manage all bad debt costs up to 2% of their turnover? Or the level of bad debt from their most recently audited level +1%, whichever is the greater?**
- 2.26 We are not in a position to comment on the level of bad debt. We agree with the need to see further evidence in order to obtain an accurate picture of the level of bad debt that currently exists in the market. We do not believe there have previously been any economic situations to draw meaningful comparisons to the impact of the COVID-19 pandemic.
- 2.27 **Q10) Where bad debt costs from non-household customers defaulting exceed a predetermined threshold, should these costs be shared between retailers and non-household customers, and in what proportion, or should they be born wholly by customers? What relevant precedents are there (including in other sectors)?**
- 2.28 As stated above, if costs are expected to be shared between retailers and business customers, appropriate protections must be in place for business customers. We expect bad debt levels to reflect aggregated actual charges, not inaccurate estimates.
- 2.29 **Q11) Do you do you agree there is a case for protecting wholesalers from the bad debt exposure associated with the liquidity measures? To what extent do you think the wholesale price control mechanism provide sufficient protection to wholesalers for Covid-19 related bad debt? Do you think we should amend the totex sharing factors or introduce a cap – for example, a proportion of wholesaler business market turnover?**
- 2.30 Any consideration of wholesaler protection should start with an assessment of the level of protection already afforded in wholesalers' 2020-25 price controls. It could be said that wholesalers are better placed to carry a higher proportion of the risk due to their monopoly position, size, ownership and access to current lower cost of financing.

Enquiries

Enquiries about this consultation should be addressed to:

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