

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

21st April 2020

Dear Sirs,

**Self- Supply Community Consultation Response to Proposals to Address
Liquidity Challenges and Increases in Bad Debt**

Many thanks for the opportunity to respond to this Consultation: maintaining financial stability in the market to enable market activities and continued services to customers, both during and beyond this crisis, is obviously paramount to the continued success of the market. The appropriate management of liquidity and bad debt management addressed in this consultation should alleviate a number of current issues being faced by Trading Parties and provide a more enduring solution than recent temporary changes.

Given the unique position of the self-supply community, a number of questions raised in the consultation are not directly relevant; however, the overall market impact is of great concern to all of the self-supply retailers. In recognition of your need to review all of the responses in a tight timeframe we have engaged with all of the licence holders to provide a streamlined community response. This includes the following:

- Appendix A – Self Supply community response to consultation questions
- Appendix B – Individual evidence to support responses to questions 2 and 4
- Individual Responses – Additional supporting commentary from each individual self-supply retailer regarding the unique impacts of Covid-19 on their operations

Hopefully this format will prove more efficient for you to review; please do not hesitate to contact us if you require any further information.

Yours faithfully



Neil Pendle
Managing Director

Encs

Appendix A - Ofwat Consultation

Response to liquidity challenges and increases in bad debt

1. Do you agree with these objectives as set out, which will guide our decisions about what are the preferred options?

Yes, agree with the objectives. Some concern over considerations for retailers to recover incremental costs from NHH customers and this will need to be clearly articulated by retailers and Ofwat prior to any arrangements being put into place. This is dependent on the levels of bad debt being over and above the normal economic cycle and should only be considered if these levels have actually been exceeded and not before.

2. 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.

All remaining wholesale charges will be paid in full.

3. Please explain how you expect your response to question 2 to change over the next month or two.

No change expected in the coming months: the appropriate use of the vacancy flag status and amendment of YVE where sites continue to use water, at a reduced level, will be continually monitored and updated as required. However, all appropriate charges will continue to be paid in full.

4. 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? Please explain your view and provide supporting evidence.

Option i recognises that Ofwat have already provided additional liquidity through the suspension of MPC, the deferment of wholesale charges and the vacant flag. It should be noted that should the deferment be extended at 50% for April and May then this represents a significant improvement in the cash position of retailers.

Option ii provides no incentive for the retailer to deal responsibly with the crisis and moves all the risk and liquidity issues to the wholesaler. In addition, it would significantly increase the administrative burden on the introduction of any tracking/measuring mechanism for cash collected. This feels too onerous to manage and we would recommend rejecting option ii.

Option iii would seem the most appropriate which would act as a bridge for a working capital gap created by late payers. The rate should be set by Ofwat rather than introduce any principles of pay when paid which add to the administrative burden and are not the concern or responsibility of wholesalers. In any normal commercial relationship, a supplier would seek tangible assurances and a repayment program in order to continue to supply services and it should be no different in this market. Should Ofwat be minded towards option iii, consideration should be given to looking at individual business sectors (SIC code derived) and make provisions for those SIC sectors hit hardest, whilst providing no incentive for those sectors that aren't as impacted.

On balance, should Ofwat choose to extend the 50% deferment to April and May then we believe, with government available funds, this should be sufficient to address any liquidity challenges. We appreciate our collective visibility is limited and we are only able to make a rough assessment based upon our analysis and available market data. Please note, this view is taken in consideration of the impact of the vacant status change and this is provided for all Self-Supply in the Appendix.

Ofwat could retain the right to extend into June should the current restrictions continue. A further consideration is that the redistribution of MPC and the suspension of charges for the rest of the year also provide for significant additional liquidity.

The most important incentive for retailers is surely to charge interest on deferred payments at an escalating rate thereby ensuring the management of cash and other sources of finance become of more importance over time.

5. How should we determine the financing costs associated with any liquidity provided by wholesalers? Please explain your view and provide supporting evidence.

Effectively commercial arms-length financing and so BoE Base + 4% would seem appropriate but it may be that the costs of finance could be escalated to this level from a lower base and thereby provide an incentive to repay.

6. Do you agree that the financing costs associated with any liquidity provided by wholesalers should be borne by retailers? Please explain your view and provide supporting evidence.

Yes, as above. Cost of financing needs to come at a cost otherwise wholesalers would, in effect, be funding retailers directly.

7. Do you agree that retailers should receive liquidity support at least to the end of July 2020? And that all additional liquidity provided by wholesalers should be repaid by the end of December 2020?

Deferment could be extended through to May and the vacant status extended to July but Ofwat should consider the additional liquidity already provided by the combination of deferment, suspension of market performance charges and vacant status. If the current Government restrictions start to be lifted, at least in part, in May, then a return to normal market conditions should be the priority. Repayment by end of December 2020 seems appropriate although some extension to end of March 2021 could also be considered.

It should be noted that the Energy sector continue to collect fixed charges from all businesses throughout the lockdown and it is only the Water sector which have provided a payment holiday to business customers most badly affected by Covid-19 through the vacant status change.

The fixed cost element of a business user, particularly SME, is a significant proportion of the charge and while any volumetric use will be recovered through meter readings, the non-volumetric charges will never be recovered. It is for this reason that wholesalers should be able, in part at least, to recover lost revenue through price increases on NHH customers, whatever the mechanism.

8. 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? Please explain your response and provide supporting evidence.

Yes. The measures set out under consultation question 4, should provide a sufficient measure to negate the need to cover off every eventuality. If a business is temporarily closed, likely the retailer has moved the site to Vacant which limits (effectively caps) their exposure. As such the bad debt is likely at lower levels (on a single customer basis) than that which they would have been under normal trading conditions.

9. If bad debt costs from non-household customers defaulting should be recoverable beyond a pre-determined threshold, then do you agree that retailers should expect 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?

The most recently audited level plus 1%. The consultation document states that some retailers have 0% versus others nearing 5% and so this must be the fairest basis. Setting a fixed rate of say 2% ignores the varying customer base retailer to retailer and as such would provide disadvantage for some versus provide an advantage to others.

10. 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)? Please explain your response and provide supporting evidence.

Likely an area that the market forces should dictate, so likely shared burden but not by direct intervention from the market, more relaxing market constraints such as pricing caps etc. This should provide the retailer the ability to recover bad debt over a period of time from enhanced margins. This really requires careful monitoring and likely cannot be predetermined at this point.

11. 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?

The wholesale price control mechanism may be sufficient to provide protection from bad debt but all measures should be considered to ensure the obligations to reduce the impact on the environment, improve performance and service to customer are not affected. The commitment by the industry to be carbon neutral by 2030 is arguably more important than the current, short term crisis.

However, as per the response to question 10 this requires monitoring and should be addressed if further data suggests it is required; at present we have insufficient information available to be able to provide an informed decision.

OFWAT
Centre City Tower
7 Hill Street
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17th April 2020

Dear Sirs,

Response to liquidity challenges and increases in bad debt

We have been working with Waterscan on managing our water charges during the COVID-19 pandemic especially with the recent changes made by Ofwat. After reviewing this consultation and the impacts of liquidity and bad debt on us as a retailer we are happy for Waterscan to provide a response on behalf of us as a self-supply community. This will provide better insight into how these changes affect customers across a range of different sectors.

To date, the methods that have been implemented in the market are sufficient to reduce our charges to best reflect the actual usage at sites in the absence of meter readings. We have utilised the YVE function already to reduce the charges we received in March following the forced closure of our sites. We anticipate utilising the vacancy flag for most of our sites as all our operational staff have been furloughed. Waterscan have been carrying out in-house meter reads at sites where the meters are external in order to gather data to support the use of this market function and to ensure that we are using it appropriately. Currently, we do not anticipate deferring payment of our invoices. The additional liquidity that has already been provided by Ofwat is a significant improvement for all retailers.

As a customer who has received retail billing, it should be noted that we received very few accurate invoices from retailers, even prior to Covid-19. We would like to suggest that the protection of retailers should naturally extend to customers. Increasing pricing and enhancing margin should be accompanied by an increase in accurate invoices, an increase in meter read success and a reduction in long unread meters. As a customer with a high spend we have always been engaged in the market, but removal of the pricing cap will disproportionately impact those that have not yet engaged in the market.

Yours faithfully

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Marston's PLC

21-Apr-2020

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

20th April 2020

Dear Sirs,

Response to Liquidity challenges and increases in bad debt

We have reviewed this consultation alongside Waterscan and the self-supply community and believe that in this instance a collective approach would be beneficial in ensuring protection of the retail market. This will help reflect the impact of these changes on customers across a range of sectors. We therefore confirm that Waterscan will be submitting a joint response on behalf of CCEP and the wider self-supply community.

We face similar challenges to other businesses affected by Covid-19 but currently the majority of our sites remain open. If this changes, we will be working alongside Waterscan to review the best action to take with regards to the vacancy flag. We do not currently have any sites operating under our self-supply, however if we switch any sites over the coming weeks or months we do not plan to defer payments. We currently have no issue in paying our retailers on time.

As we are active in the retail market and are still encountering some issues with our retailers, we firmly believe that any increases in pricing by retailers and expansion in margins is accompanied by an improved retail service for customers to ensure long term resilience of the market.

Yours faithfully



Coca-Cola European Partners Great Britain Limited

21-Apr-2020

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

20th April 2020

Dear Sirs,

Response to Liquidity challenges and increases in bad debt

We have reviewed this consultation alongside Waterscan and the self-supply community and believe that in this instance a collective approach would be beneficial in ensuring protection of the retail market. This will help reflect the impact of these changes on Heineken UK Ltd as well as customers across a range of sectors. We therefore confirm that Waterscan will be submitting a joint response on behalf of Heineken UK Ltd and the wider self-supply community.

Our sites have been impacted by Covid-19 with some Scottish sites closing and production volumes decreasing at English sites. Our pub portfolio has also closed. We are planning to switch our pub portfolios to self-supply over the coming months and will work alongside Waterscan to carry out due diligence before making use of the vacancy flag for the closed sites. We anticipate settlement accurately reflecting our usage at each site and we do not have any plans to defer payment of our invoices.

As a previous retail customer, and from the perspective of our pubs, we have experienced issues with retailer billing and customer service in the past. It will be important for the longer term resilience of the market that any retailer price increase, as a result of bad debt, is accompanied by an improvement in retail services to the customer, particularly in terms of accurate billing and meter read performance.

Yours faithfully



Heineken UK Ltd

21-Apr-2020

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

20th April 2020

Dear Sirs,

Response to Lliquidity challenges and increases in bad debt

We have reviewed this consultation alongside Waterscan and the self-supply community and believe that in this instance a collective approach would be beneficial in ensuring protection of the retail market. This will help reflect the impact of these changes on customers across a range of sectors. We therefore confirm that Waterscan will be submitting a joint response on behalf of Kellogg's and the wider self-supply community.

We face similar challenges to other businesses affected by Covid-19 but currently the majority of our sites remain open. If this changes, we will be working alongside Waterscan to review the best action to take with regards to the vacancy flag. We do not currently have any sites operating under our self-supply, however if we switch any sites over the coming weeks or months we do not plan to defer payments. We currently have no issue in paying our retailers on time.

As we are active in the retail market and are still encountering some issues with our retailers, we firmly believe that any increases in pricing by retailers and expansion in margins is accompanied by an improved retail service for customers to ensure long term resilience of the market.

Yours faithfully



Kellogg's

21-Apr-2020

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

17th April 2020

Dear Sirs,

Response to liquidity challenges and increases in bad debt

We have been working with Waterscan on managing our water charges during the COVID-19 pandemic especially with the recent changes made by Ofwat. After reviewing this consultation and the impacts of liquidity and bad debt on us as a retailer we are happy for Waterscan to provide a response on behalf of us as a self-supply community. This will provide better insight into how these changes affect customers across a range of different sectors.

To date, the methods that have been implemented in the market are sufficient to reduce our charges to best reflect the actual usage at sites in the absence of meter readings. We have utilised the YVE function already to reduce the charges we received in March following the forced closure of our sites. We anticipate utilising the vacancy flag for all sites that meet the requirements. Waterscan have been carrying out in-house meter reads at sites where the meters are external in order to gather data to support the use of this market function and to ensure that we are using it appropriately. We will not be deferring payment of our invoices as we are not reliant on customer cash flow to do this and we feel settlement will reflect the charges that are payable. The additional liquidity that has already been provided by Ofwat is a significant improvement for all retailers.

As a customer who has received retail billing, it should be noted that we received very few accurate invoices from retailers, even prior to Covid-19. We would like to suggest that the protection of retailers should naturally extend to customers. Increasing pricing and enhancing margin should be accompanied by an increase in accurate invoices, an increase in meter read success and a reduction in long unread meters. As a customer with a high spend we have always been engaged in the market, but removal of the pricing cap will disproportionately impact those that have not yet engaged in the market.

Yours faithfully

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whitbread PLC

21-Apr-2020

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

17th April 2020

Dear Sirs,

Response to liquidity challenges and increases in bad debt

We have been working with Waterscan on managing our water charges during the COVID-19 pandemic especially with the recent changes made by Ofwat. After reviewing this consultation and the impacts of liquidity and bad debt on us as a retailer we are happy for Waterscan to provide a response on behalf of the self-supply community as this will provide better insight into how these changes affect customers across a range of different sectors.

To date, the methods that have been implemented in the market are sufficient to reduce our charges to best reflect the actual usage at sites in the absence of meter readings. We have utilised the YVE function already to reduce the charges we received in March following the forced closure of our sites. We anticipate utilising the vacancy flag for most of our sites as all our operational staff have been furloughed. Waterscan have been carrying out in-house meter reads at sites where the meter is external to gather data to support the use of this market function and to ensure that we are using it appropriately. We will not be deferring payment of our invoices as we are not reliant on customer cash flow to do this and we feel settlement will reflect the charges that are payable. The additional liquidity that has already been provided by Ofwat is a significant improvement for all retailers.

As a customer who has received retail billing, it should be noted that we received very few accurate invoices prior to Covid-19. We would like to suggest that the protection of retailers should naturally extend to customers. Increasing pricing and enhancing margin should be accompanied by an increase in accurate invoices, an increase in meter read success and a reduction in long unread meters. As a customer with a high spend we have always been engaged in the market, but removal of the pricing cap will disproportionately impact those that have not yet engaged in the market.

Yours faithfully



Greene King

21-Apr-2020

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

20th April 2020

Dear Sirs,

Response to Liquidity challenges and increases in bad debt

We have reviewed this consultation alongside Waterscan and the self-supply community and believe that in this instance a collective approach would be beneficial in ensuring protection of the retail market. This will help reflect the impact of these changes on JLP as well as customers across a range of sectors. We therefore confirm that Waterscan will be submitting a joint response on behalf of JLP and the wider self-supply community.

Our sites have been affected by Covid-19 and all John Lewis and office sites are now closed, whilst Waitrose sites remain open. We have worked alongside Waterscan to ensure our charges for John Lewis are reduced to accurately reflect site usage. We initially made use of amending the YVEs for our closed sites and have now utilised the vacancy flag and will continue to ensure this flag is used appropriately. We anticipate settlement accurately reflecting usage at each site, and we have no plans to defer payment of our invoices.

We only recently switched our sites to self-supply and still have some sites that remain with a retailer. From the perspective of a retail customer, we believe that any uplift in retail costs and margin increases due to bad debt need to be accompanied by an improved retailer service, as we have previously experienced significant issues with retailer billing and meter read services. This would improve the resilience of the retail market in the longer term.

Yours faithfully



John Lewis Partnership

21-Apr-2020

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

20th April 2020

Dear Sirs,

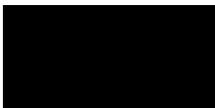
Response to Liquidity challenges and increases in bad debt

We have reviewed this consultation alongside Waterscan and the self-supply community and believe that in this instance a collective approach would be beneficial in ensuring protection of the retail market. This will help reflect the impact of these changes on Stonegate Pub Company as well as customers across a range of sectors. We therefore confirm that Waterscan will be submitting a joint response on behalf of Stonegate Pub Company and the wider self-supply community.

Since Stonegate sites closed on 21st March due to Covid-19, we have worked alongside Waterscan to ensure our charges through settlement are reduced to accurately reflect site usage. We initially made use of amending the YVEs for our sites and we will be utilising the vacancy flag whilst sites are not operating. Use of the vacancy flag will be backed up by meter readings that Waterscan are currently undertaking to ensure this is the appropriate amendment to make. We anticipate settlement accurately reflecting usage at each site, and we have no plans to defer payment of our invoices.

As a previous retail customer we have experienced issues with retailer billing and customer service in the past, and for longer term resilience of the market it is important to ensure that any price and margin increases are accompanied by an improvement in retail services to the customer (including improved meter read performance and accurate billing). Any protection for retailers should be passed onto customers as well.

Yours faithfully



Stonegate Pub Company Limited

21-Apr-2020

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

20th April 2020

Dear Sirs,

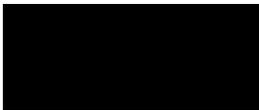
Response to liquidity challenges and increases in bad debt

I'm writing to confirm that our response to this request will be submitted by Waterscan on behalf of the self-supply community. Blackpool Council have been working closely with Waterscan and the SS community to discuss and debate the changes proposed in the consultation document and have come to a collective view about the best way forward to ensure protection for the water retail market and ongoing benefits of close collaboration between us and our wholesale partners. This collective view provides a better insight into how these changes affect customers across a range of sectors including Blackpool Council.

Blackpool Council has been impacted greatly by COVID-19, with many sites closed or on heavily reduced demand. We have utilised the vacancy flag to ensure our costs are reflective of these closures and to improve liquidity within the council at this difficult time and we will ensure that the use of this flag is applied appropriately. We will not be deferring payment of our invoices as we are not reliant on customer cash flow to do this and we feel settlement will reflect the charges that are payable. The additional liquidity that has already been provided by Ofwat is a significant improvement for all retailers.

Longer-term, the resilience of the retail market needs review. As a previous retail customer, it will be important to ensure that the customer sees an improvement in retail service from any longer-term increase in retail margins, even if only implemented to recover increases in bad debt from COVID-19.

Yours faithfully



Blackpool Council

21-Apr-2020

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

20th April 2020

Dear Sirs,

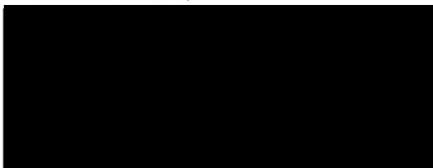
Response to liquidity challenges and increases in bad debt

I'm writing to confirm that our response to this request will be submitted by Waterscan on behalf of the self-supply community. Elis have been working closely with Waterscan and the SS community to discuss and debate the changes proposed in the consultation document and have come to a collective view about the best way forward to ensure protection for the water retail market and ongoing benefits of close collaboration between us and our wholesale partners. This collective view provides a better insight into how these changes affect customers across a range of sectors including Elis.

Elis has been impacted greatly by COVID-19 and many changes have been implemented for our operations to remain viable. Some sites have closed due to the reduced demand for our services, particularly from the hospitality sector, so we have utilised the vacancy flag to ensure our costs are reflective of these changes and to improve liquidity within the business. We will continue to ensure that this flag is applied appropriately.

The longer-term plans for the stability of the retail market and bad-debt provision are interesting, particularly as not all our sites are operating under our self-supply licence. Any future increase in retailer margins to account for bad debt should include an assurance of a good quality retail service where meter reads are provided regularly and invoicing is accurate, something that we have failed to see on many occasions as a retailer customer.

Yours faithfully

A large black rectangular redaction box covering the signature area.

Director

OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

20th April 2020

Dear Sirs,

Response to liquidity challenges and increases in bad debt

I'm writing to confirm that our response to this request will be submitted by Waterscan on behalf of the self-supply community. BT have been working closely with Waterscan and the SS community to discuss and debate the changes proposed in the consultation document and have come to a collective view about the best way forward to ensure protection for the water retail market and ongoing benefits of close collaboration between us and our wholesale partners. This collective view provides a better insight into how these changes affect customers across a range of sectors including BT.

BT is impacted by COVID-19 with most office-based staff now working from home, although we have not felt it appropriate to utilise the vacancy flag for these sites at this stage as some skeleton staffing is implemented in most cases and the reduced demand will reflect in lower charges. Our mobile phone (EE) retail stores have been forced to close so we have set these as vacant to ensure our costs are reflective and to improve liquidity within this area of our business, we will ensure that the use of this flag is applied appropriately. We will not be deferring payment of our invoices as we are not reliant on customer cash flow to do this and we feel settlement will reflect the charges that are payable. The additional liquidity that has already been provided by Ofwat is a significant improvement for all retailers.

Whilst these short-term measures are useful, it will be important for retailers to build in more resilience in future. This will undoubtedly mean greater retail margins are required and, as a previous retail customer, it will be important to ensure that the customer sees an improvement in retail service as a result, including if implemented only to recover bad debt from this crisis.

Yours faithfully



BT PLC

21-Apr-2020