

Notice of Ofwat's decision to extend the Covid-19 Temporary Vacant flag until 31 July 2020

Background

In March 2020, the UK government issued guidance and imposed legislative measures to help reduce the spread of Covid-19, by requiring that, unless exceptions apply, businesses and premises should be closed and large gatherings, non-essential travel and any other such activities should be avoided.

We recognised that this action would likely lead to significant reductions in the levels of water and wastewater services used at a number of business premises. To address this issue, Ofwat proposed a Change Proposal that would allow Retailers to temporarily apply the vacant flag in the Central Market Operating System (CMOS) so that charges are not accrued for those premises that have closed down due to Covid-19. We noted that there would inevitably be a drop in the number of Meter Reads entered into CMOS. We concluded that allowing the use of the vacant flag within CMOS temporarily aims to ensure that future primary charges more accurately reflect actual levels of (reduced) consumption during the Covid-19 pandemic.

On 30 March 2020 [changes to the market codes](#) were implemented to enable retailers to use the temporary vacant flag within CMOS. Section 3.1.6. of [CSD0104](#) states that:

Until 30 June 2020, **or for such period as the Authority determines and after which gives notice of to Trading Parties**, a premises is considered to be a Vacant Premises if, due to the outbreak of Covid-19 and the measures given by the government to reduce its spread, it:

- a) is not open or available to workers, the public or visitors; or
- b) has seen a significant decrease in its usual activities. Significant here means a reduction of 95% or more.

Following this update to the market codes we have continued to monitor developments in relation to Covid-19 and its impact on the business retail market. Following announcements from Government, some restrictions are beginning to be eased, with non-essential shops allowed to re-open from 15 June. We recognise, however, that many business customers are still not in a position to resume normal trading arrangements. And that once non-essential businesses have re-opened they

could potentially be subject to 'local lockdowns' in future to control the spread of Covid-19 in particular communities.

Ofwat wrote to trading parties on 28 May 2020 noting that it was minded to extend the ability for retailers to use the Covid-19 flag until **31 July 2020**. We considered that an extension until 31 July 2020 would better align the use of the Covid-19 vacancy flag with [our April 2020 decision](#) to enable retailers to receive liquidity support to the end of July 2020. We advised stakeholders that we would welcome feedback on this proposal no later than Thursday 4 June 2020.

We have considered the information we have received in response to our consultation and can confirm that **the ability for retailers to use the Covid-19 temporary vacancy flag has now been extended until 31 July 2020**.

As more businesses start to reopen and premises return to being occupied, we encourage retailers to use the period of this extension to review their customer portfolios and update the status of any business premises where the requirements for a temporary vacant flag no longer apply.

Responses

We received 15 responses in total, from nine wholesalers, five retailers and a response from the Consumer Council for Water. All parties, aside from one wholesaler, were supportive of our proposal to extend the deadline for using the Covid-19 temporary vacancy flag to 31 July 2020.

Two wholesalers pointed to the impact that the Covid-19 temporary vacancy flag has had on the recovery of their non-volumetric charges, which are significantly higher than for many other wholesalers.

The wholesaler who objected to our proposal suggested that the Covid-19 temporary vacancy flag should be allowed to expire at the end of July 2020. They pointed to the recent updates that have been made to the [Customer Protection Code of Practice](#) which, in their view, should allow retailers to take a more affordability led approach when considering if individual customers needed payment support.

While all other parties expressed support for the extension of the flag, respondents raised a range of points that we will consider going into July, this included:

- The possibility that restrictions may be lifted or imposed on a regional rather than national basis.

- Improving visibility on how the Covid-19 vacant flag and YVE adjustments are being applied in the market.
- The case for enabling the Covid-19 vacant flag to be used beyond the end of July.
- The process that trading parties should follow once Ofwat decides that the ability to use the Covid-19 vacant flag has expired?

A common concern that we noted from responses was the potential inconsistent application of the Covid-19 temporary vacancy flag, which is currently being explored by MOSL and a sub-group of the Market Performance Committee.

Clarification

A further point that we would like to clarify, is that when a retailer is determining whether there has been a decrease of 95% of usual activities at a premises they should be considering the impact on a customer's consumption of water and sewerage services. This is consistent with the original intention of the temporary vacant flag, which was to ensure that future primary charges more accurately reflect actual levels of (reduced) consumption during the Covid-19 pandemic.

Next steps

We intend to consult with trading parties again in July 2020 on the next steps regarding the liquidity measures that have been put in place in the market. At that point we will also consider the extent to which further use of the temporary vacant flag is necessary and appropriate. As part of our consultation on next steps we will also consider the timescale and process for unwinding use of the temporary vacant flag. While welcoming further views from stakeholders at that time we will also use draw upon the responses to this consultation to inform our decision making.

As set out above and reflecting that more businesses are starting to reopen, we encourage retailers to use the period of this extension to review their customer portfolios and update the status of any business premises where the requirements for a temporary vacant flag no longer apply. Retailers should be aware that as part of our July consultation we may consider if retailers should be required to switch off all Covid-19 temporary vacant flags by the end of August 2020.