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Covid Business Retail Market
Ofwat

By email: covidbusinessretailmarket@ofwat.gov.uk

16th July 2020

Dear Ofwat

Covid-19 and the business retail market – consultation on next steps

In an annex to this letter we provide our response to the questions in this consultation. We consider the credit support pro-forma to be confidential on the grounds of third-party commercial confidentiality, and therefore provide this information in a separate annex.

Overall we are supportive of the approach suggested and provide a considered view to the questions posed in the consultation. The principle that the measures taken in response to Covid-19 should be unwound as soon as practical, but in a way that protects customers, appears to be shared by all market participants. Ofwat set out some preferences for the options included in the consultation and even where we suggest a preference for an alternative, these are balanced judgements and we would not be unduly concerned if Ofwat were minded to retain the initial view set out in the consultation.

Yours faithfully

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Director of Strategy and Regulation

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Consultation question 1: Of the three options identified in relation to extending liquidity support, which option do you support and why? Please explain your answer and provide supporting evidence wherever appropriate. Which option is most compatible with furthering customers interests and why?

Consultation question 2: If we were to implement option 2, should we retain the existing capped amount of liquidity support (i.e. 40% of primary charges from March to July), or should this be reduced to a lower level (e.g. 30%, or 25%)? Please explain your answer and provide supporting evidence wherever appropriate.

Consultation question 3: If we were to implement option 2, should we continue to allow Retailers to opt into the scheme at any time up until October 2020? We also welcome stakeholder views on the most appropriate way a cap could be implemented into the current mechanism. Please explain your answer and provide supporting evidence wherever appropriate.

On balance our preference is for option 1, although option 2 depends on whether retailers are allowed to opt into the scheme after the end of July 2020. For the retailers currently on the deferral scheme, we see logic in option 2, with an overall cap at a reduced level of 30% of the primary charges from March to July. This reflects that retailers appear to have behaved appropriately and many of those who have opted into the scheme have chosen to pay in full.

If Ofwat considered that retailers who have not deferred were allowed to start deferral up to a cap of 30% or 40% then we would not support this extension, as it is not in line with the intentions of the original April consultation. This effectively means we could only support option 2 if it is capped at 30% and only applies to existing retailers within the deferral scheme.

We supported a 30% cap, similar to this option, in our response to Ofwat's April consultation. Given the table in section 2.1.2 of the consultation shows no retailers with greater than 30% outstanding, we see little logic for a higher cap, while 30% also then encompasses all retailers that are part of the liquidity support scheme.

Consultation question 4: Of the three options identified in relation to unwinding liquidity support, which option do you support and why? Please explain your answer and provide supporting evidence wherever appropriate. Which option is most compatible with furthering customers' interests and why?

Consultation question 5 : Under option 3 do you agree that 33% of deferred wholesale charges should be repaid by end November 2020 and that 66% should be repaid by end January 2021? Please explain your answer and provide supporting evidence wherever appropriate.

We believe that a repayment profile of 33% of deferred wholesale charges by the end of November 2020 and 66% repaid by the end of January 2021 is appropriate. This should act as a minimum repayment profile under option 3. We do not think it is necessary to put in place a



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need for specific published wholesaler/retailer agreements under this option. As there is a minimum repayment profile in place and an incentive for retailers to repay as soon as they can with the interest rate provisions (up to 5.98%) remaining in place, the minimum repayment profile is sufficient to incentivise retailers without the additional regulatory burden on wholesalers and retailers of fixed repayment profile plans.

Consultation question 6: Do you agree that the option for Retailers to use the temporary vacancy flag should be allowed to expire on 31 July 2020? Please explain your answer and provide supporting evidence wherever appropriate.

We agree with this approach.

Consultation question 7: Do you agree that in the event of (1): reduced consumption, and/or (2) any local lockdowns, Retailers should seek to obtain meter reads to reflect actual consumption in the market (or in the event a meter read cannot be obtained engage with customers to obtain an accurate estimate of consumption (YVE))? Please explain your answer and provide supporting evidence wherever appropriate. If you do not agree, please set out an alternative proposal.

We support this approach. It is important that summary results (in general terms) of MOSLs audits on YVEs are shared with wholesalers to assist them with understanding the likely impact of Covid on revenues and cash flows. Uncertainty about whether high or low use of vacancy flags and the degree to which YVEs are accurate in the absence of meter readings makes understanding the impact of Covid very difficult, and this uncertainty rather than just the reduced cash flows is something wholesalers require as much information on as can be shared without breaching market confidences.

Consultation question 8. Do you agree that following the expiration of the temporary vacancy flag Retailers will have until the end of September to remove these flags from CMOS? Please explain your answer and provide supporting evidence wherever appropriate.

We also agree that all temporary vacancy flags should be removed by the end of September 2020. We would suggest Retailers could usefully prepare specific plan for MOSL/Ofwat to review in order to allow monitoring of progress, and to provide wholesalers with advance notice, even in general terms, of emerging issues.

Clarity is required on what will happen in the circumstances where a retailer does not remove the temporary vacancy flag. In these circumstances there is some doubt about the date at which the flag status should have applied as it has not been removed promptly. We suggest that 31 July 2020 would be a suitable assumption as this provides retailers sufficient notice to prepare, given the flag originally was due to expire at this point.

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Consultation question 9 : Do you agree that a new MPS should be introduced from 1 October that focusses on the timely removal of all temporary vacancy flags? If so, what are your views about how this standard should be designed? Please explain your answer and provide supporting evidence wherever appropriate.

We agree that this is the earliest date where the new MPS should be introduced. Any earlier a requirement would not provide retailers sufficient time to adjust to the ending of the temporary vacancy flag.

Consultation question 10 : Do you agree that an additional MPS (or alternatively an API) should be introduced to monitor the use of YVEs in the market and incentivise the submission of more accurate consumption data? Please explain your answer and provide supporting evidence wherever appropriate

We agree with the proposal to use an additional MPS to monitor YVEs

Consultation question 11 : If we were to introduce a financial incentive on YVEs, how could arbitrarily low YVEs entered into CMOS be identified in a proportionate way (for example via one or more simple rules)? If we were to introduce a reputational incentive on the use of YVEs, how could such a reputational incentive be strengthened?

We think it will be proportionate to start with a reputational incentive on the use of YVEs. One way of considering the strength of reputation incentives is for MOSL to agree improvement plans with retailers where there are concerns. Then, after a period, a financial incentive could then be introduced on the specific retailer. This approach would be proportionate and avoid the risk that a low YVE will be difficult to judge on an individual property as consumption can unexpectedly change and retailers are to a degree dependent on customer information.

Consultation question 12 What are your views on how we can better (financially or reputationally) incentivise Wholesalers to work constructively with Retailers during the unwinding of the temporary vacancy flag and to improve the accuracy of data in CMOS?

Ultimately R-MEX will address retailer satisfaction with wholesalers. Ofwat had the option to place financial incentives on R-MEX (something we encouraged Ofwat to consider during PR19 by retaining the right to do so over 2020-25). It is in wholesaler's interests to have accurate data, but retailers have responsibility to change the vacancy flags. We have worked constructively with retailers and are not sure how specific incentives on wholesalers, other than general retailer satisfaction, could apply in practice.



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Consultation question 13: Do you agree with the expectations set out above, which will guide trading parties through the unwinding of the temporary vacancy flag?

We increased the support we provided to wholesalers in checking temporary property vacancy by reallocating resources from activities that were less required than normal. We will not be able to continue with this additional level of support beyond the end of September 2020 at the latest, as other activities return to normal.

Consultation question 14: Should Market Performance charges come back into effect from end September 2020 or end October 2020? Please explain your answer and provide supporting evidence wherever appropriate.

We think it is reasonable for market performance charges to come back into effect from the end of October 2020. This reflects sufficient time for the Covid-19 vacancy flag to be adjusted and then for retailers and wholesalers to deal with any consequential data changes. Given the importance of accurate meter reading and YVEs, rather than just the removal of the Covid-19 vacancy flags, we believe the market will operate better if retailers are allowed an additional month to complete their own plans for adapting to these changes

Consultation question 15: Should OPS charges be introduced before MPS charges? Please explain your answer and provide supporting evidence wherever appropriate.

Wholesalers response to OPS is in part dependent on the quality of retailer data in making requests. We see that OPS and MPS activities are likely to coincide (for instance requests to check / replace stopped meters linked to the unwinding of Covid vacancies). It will provide the greatest clarity for the market if both OPS and MPS are introduced from the end of October 2020 for the reasons set out above.

Consultation question 16: Should non meter reading MPF charges come into effect before meter reading MPF charges? Please explain your answer and provide supporting evidence wherever appropriate.

As we support a later reintroduction date of October we think it is most appropriate for MPF charges to come into effect as a whole and at the same point.

Consultation question 17: Note – responses to this question will be shared with MOSL. Of the 3 options identified in relation to credit security requirements, which option do you support and why? Please explain your answer and provide supporting evidence wherever appropriate. Which option is most compatible with furthering customers interests and why?



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We agree with option 2 to maintain credit support at March 2020 levels until all the temporary vacancy flags are switched off. We think this is consistent with our responses to the other options and incentives we set out in earlier consultation responses. For the credit support to move away from March 2020 levels, we need an accurate reflection of void properties and meter reading in the market. We expect Ofwat and MOSL will wish to be informed by the data that the retailers are providing and the audits on these topics that are currently underway. Assuming that this data confirms that there are suitable measures across retailers in place in order to have accurate and updateable market data available by the end of October 2020 (September 2020 as the target but then a month to ensure that this is robust, and resilient to any specific issues such as local lock downs that may emerge), then we suggest proceeding with option 2 is appropriate.

We would urge consistency in the final options – either September for reversal / end of September for incentives or October / end of October. As Ofwat set out in the consultation there is a judgement between the dates, and on balance we have suggested October in our response on the basis of consistency and to allow for sufficient time for retailers to ensure the data quality expectations are met, and for wholesalers to support them in this regards.

Consultation question 18: Do you agree that the CPCoP does not require amendment in light of the proposals set out in this document? Please explain your answer and provide supporting evidence wherever appropriate.

We agree with Ofwat's assessment as set out in the consultation.