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### **Interim Supply: A consultation on process amendments**

Dear Sir/Madam

Thank you for giving Business Stream the opportunity of responding to the Ofwat consultation on Interim Supply.

We recognise that in a functioning, competitive market that a disorderly exit can occur and therefore robust processes need to be in place to ensure Interim Supply Retailers are prepared so that Affected Customers experience the least amount of inconvenience.

We welcome the proposals put forward by Ofwat in this consultation to amend the ISC and WRC to further strengthen the Interim Supply process. We are confident that they will improve the process in the event of an unplanned exit from the market by a small Retailer. However, we are concerned about the potential impact on Trading Parties and Affected Customers should a major Retailer go into administration, especially if it is the former incumbent/Acquiring Retailer in one or more wholesaler areas. We believe that the risk of major Retailer default is substantially heightened as a result of COVID-19 and that we should consider whether the current ISC provisions would be adequate to cope.

Will there be sufficient Interim Supply coverage in a wholesaler area for IDSPs to be fully allocated? During this period of economic uncertainty there is the very real possibility that no Eligible Licensee submits an Interim Supply Offer, because of the risks of taking on an unknown customer base. Furthermore, Retailers may withdraw from the Interim Supplier Allocation process or significantly reduce the number of IDSPs they wish to receive, leaving a shortfall of capacity. Retailers may do this at short notice depending on the circumstances of the unplanned exit. There are a number of reasons why this may occur:

- Inability to successfully on-board the volume of IDSPs including the requirement to meet transfer read timescales.
- Inability to recover the cost of on-boarding should a customer switch to another Retailer soon after the allocation process.
- The increase in working capital required to cover the liability for wholesale charges from the point of cessation of supply ahead of the recovery of the retail charge.

[REDACTED]

[REDACTED] This would not be the same should there be an unplanned exit and therefore

it increases the risk of unsuccessful on-boarding of a large volume of IDSPs. The consequences of poor on-boarding are both reputational and financial. This point is compounded by the transfer read timescales. In the event of an unplanned exit of a large Retailer it is not achievable for the Interim Supply Retailer to be able to obtain the required reads within one or three months, especially as it is likely it will need to negotiate terms with a meter reader before any reading can take place.

On-boarding accurately and at speed can be expensive. There is a risk that should the customer switch away from the Interim Supplier to another Retailer in the short term the cost could not be recovered.

From the Designated Date the Interim Supplier is responsible for wholesale charges and Credit Support. Following any switch, a Retailer experiences a significant period before the customer pays its first bill. In the case of an unplanned exit event this period is very likely to be extended. Firstly, as the Designated Date is the cessation date not the date of the switch, the time lag could be substantial. Secondly, the customer needs to be on-boarded and with high volumes of IDSPs associated with a large Retailer exiting the market the time taken could be significant. Thirdly and even more importantly, as the customer has not elected to switch they are not likely to have the Interim Supplier set up as a vendor in their accounting systems and they may be suspicious of the communications they receive resulting in a slower speed of payment. This assumes that all customers are willing/have the ability to pay. There will be a number that have built up bad debt/arrears with its former supply, especially as a result of COVID-19. Unlike a standard switch where a Retailer can assess the customer's ability and willingness to pay, in an Interim Supply event there is not this opportunity. The Interim Supplier has to take on both good and poor payers and/or has to resolve any issues that is preventing the customer paying, such as outstanding operational requests such as meter exchanges. Funding the wholesale charge with no certainty of payment by the customer is a significant risk not only to the Interim Supplier but to the industry. It is not inconceivable that the Interim Supplier itself experiences financial issues as a result of a disorderly exit by large Retailer and creates a domino effect.

While we recognise that the purpose of this consultation was to propose improvements to the Interim Supply process we would welcome Ofwat's consideration of reducing some of the considerable risks for the Interim Supplier especially in the event of a large Retailer exiting the market. Without a sharing of this risk or a greater reward for bearing the risk it is unlikely that Retailers will apply to be part of Interim Supply in any meaningful way and certainly not in a way to protect Affected Customers.

Please see below our responses to the questions asked in the consultation.

1. Amendments to Election process a. To enable the backdating of Election following a Relevant Cessation of Supply? b. To codify the informal process that Ofwat and MOSL have in place to inform Licensees that an interim supply event is imminent? c. To highlight in CSD 0004 the obligations on Licensees to provide a Scheme and Statement to Ofwat in the specified circumstances. d. To align the Suspension process within the ISC and WRC.

We are supportive of these proposals.

2. Statements of Interim Supply Capacity a. To insert reference to Alternative Credit Support and Alternative Payment Terms into the Statements? b. To amend the manner in which Statements are submitted so that they are provided by reference to CSD 0006 rather than directly to an Ofwat inbox.

We are supportive of these proposals.

3. Offers process: enabling areas to be split across different Eligible Licensees a. To give Ofwat the discretion to determine whether IDSPs in one Area, or a relevant combination of Areas, should be Allocated to more than one Eligible Licensee?

We are supportive of these proposals.

4. Allocation and Registration of Licensees who have Elected to be Eligible Licensees a. To explicitly reference the Offers process in CSD 0004? b. The process diagrams for the Interim Supply Offers process and the Interim Supplier Allocation Process are reflective of the proposed amendments?

We are supportive of these proposals.

5. Interim Supplier Allocation Methodology a. To clarify that the methodology cited in CSD 0004 only applies to the Allocator process? b. That an Eligible Licensee's Statement on capacity should be taken into account under the Allocator process.

We are supportive of these proposals but consider that further changes could be made to support Affected Customers where they already have a relationship with a candidate Interim Supplier. This relationship could be because they provide services on other supply points or already provide a service at the site due to the former WOC/WASC relationship. Customers could be allocated to specific Interim Suppliers (assuming there is more than one in the allocator) based on existing relationships. This reduces the impact on the customer as they don't need to set up the Interim Supplier as a new supplier in their accounting software and the customer is familiar with the Interim Supplier. For the Interim Supplier it means that there is reduced risk the Affected Customer will transfer to another supplier in the short term and will also improve the speed of payment.

6. Timetabling for the Allocator process a. To align the obligations on MOSL and Ofwat to provide and approve a timetable for the Allocator process?

We are supportive of these proposals.

7. Cessation of Supply a. To extend the circumstances in which Ofwat may invoke interim supply to include where a Licensee has consented to the revocation of its License? b. To clarify that revocation will take precedence over Wholesale Contract termination for the purposes of interim supply. c. To amend the Business Terms so that all Wholesale Contracts that a Licensee has are automatically terminated when its License is revoked?

We are supportive of these proposals.

8. Provision of information to Affected Customers a. To enable Ofwat to extend the timeframe in which Interim Licensees must provide information to Affected Customers?

We are supportive of these proposals.

9. Other proposed changes a. To amend the reference from Wholesale Tariff to Wholesale Charges? b. To clarify that Eligible Licensees will be able to use information provided with the Notice of Relevant Cessation of Supply to inform the contents of their Interim Supply Offer? c. To make minor drafting changes to CSD 0004 and the MAC?

We are supportive of these proposals.

10. Customer right to switch away

a. How long does it generally take to on-board a customer? Is this timeframe different where the customer has voluntarily moved to the Licensee in comparison to under the interim supply provisions, or gap site provisions? If yes, please provide details.

Accurate, effective and efficient on-boarding provides the best possible start to providing an enduring, great service to the customer. If a Retailer gets on-boarding correct it will ensure:

- Higher levels of customer satisfaction
- Reduced levels of complaints
- Reduction in rework
- Accurate bills
- Faster speed of payment
- Lower cost to serve

Assuming that all available data is to hand we have reduced our single on-boarding journey for each supply point (from the point of sale to the point of opening bill) . Manual effort throughout this journey is calculated . Both the number of days and manual effort increases significantly if data is inaccurate or there are objections. The quality of data could be an issue which prolongs the time taken for on-boarding in an Interim Supply event. As indicated above, the Interim Supplier will have to rely on market data only, rather than having the cooperation of the customer which it would receive during a voluntary switch.

Mass on-boarding is more difficult to calculate with greatest determining factor being the accuracy of the market data.

[REDACTED]

b. Do you have any experience of Affected Customers switching away having been Allocated following an interim supply event? If yes, please provide details.

No, we have not been an Interim Supplier in England.

c. If you have one, does your current Interim Supply Scheme provide details to Affected Customers of how they can switch Licensee? If yes, please provide details.

No, this is not included in our Interim Supply Scheme.

d. Do you think the ISC should state when a new Licensee is able to continue the supply of services from the Interim Licensee? Do you consider that there are potential advantages and disadvantages (both for customers and Licensees) of codifying this requirement?

If the customer switches away from the Interim Supplier within the first few months, we agree that the inability to recover the cost of on-boarding is a risk. However, we believe that the greater risk is that the customer switches without paying their bill. Under the current market definition of Outstanding Debt, we would not be able to reject the transfer request if it happened within at least 90 days of the due date of the first bill. As indicated above, the Interim Supplier has a liability for wholesale charges from the cessation date, but it may be months before the on-boarding process is complete and a bill issued to the customer.

We believe that the risk of non-payment, especially under COVID-19 conditions, is the greatest hurdle preventing Retailers participating in the Interim Supply mechanism. If the risk of customers switching away without paying could be addressed, it would go some way towards making the scheme more attractive. The simplest approach might be for the Interim Supplier to be able to object to (and hence prevent) the switch until a customer has paid in full for their interim supply up to the date of transfer. This would be consistent with the existing market principles. Another option might be that if a customer wanted to switch within a short window (before on-boarding), the new permanent Retailer could potentially take responsibility for the customer from the cessation date, including liability for wholesale charges. This would avoid the need for customers to be on-boarded twice and make the experience much smoother. The timescales for this would need to be aligned to the on-boarding process, which could vary depending on the number of SPIDs affected.

11. Submission of Transfer Reads following an interim supply event a. What is your view of the current timeframes for submission of Transfer Reads (set out in section 5.1.10 of CSD 0004)? In providing views on this, please set out what you consider to be an appropriate timeframe, the reasons for this, and any perceived customer detriment where this is an extension to the current limitations.

There are a number of reasons why an Interim Supplier Retailer will find a one-month or three-month transfer read timescale challenging, especially following the unplanned exit of a large Retailer:

- They may not have an appropriate contract with a meter read supplier based on the volumes required and a new/amended contract would need to be agreed.
- Meter reading capacity is already constrained. Assuming the same meter reader is used as the exiting Retailer, reads will have to be achieved in 50% less time. A normal meter read cycle is over six months, the meter reader will have to achieve the same in less than three months.
- The timescale starts from the Designated Date, this could be significantly earlier than the actual switch date, reducing the one or three-month window.
- It is likely that much of the communication between the Interim Supplier and meter reader is ad-hoc and non-system based, which introduces delays, complications and inaccuracies. This is because the Affected Customer may not be fully registered in the Interim Supplier's systems to permit business as usual/automatic processing between the Interim Supplier and the meter reader.
- There is very little planning time ahead of the transfer to the Interim Supplier and potentially little access to appropriate data.

For the reasons given above we think it is appropriate for the Interim Supplier and the Market Operator to have the ability to agree a transfer read timetable without the back stop position as currently stated in CSD0004. The timetable should be cognisant of the individual circumstances of the interim supply event including the number of IDSPs, meter reading capacity, available meter technology (smart meters, AMRs etc.), the lapsed time between Designation Date and actual transfer, quality of meter asset data, vacancy levels etc.

12. Do you consider that the proposed changes to the WRC and the MAC further the principles and objectives of the WRC and MAC?

Yes we do.

Please not hesitate to contact me should you require any further information.

Yours faithfully

Trevor Nelson  
Regulation and Compliance Manager