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

CCW response to the Water Services Regulation Authority (Ofwat) - Covid-19 and the business retail market – consultation on the next steps

CCW response **July 2020**

Response to specific questions

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?

Based on the evidence provided in the consultation document, we are supportive of Option 2. We believe this is the most preferable approach for the current market status and will help to ensure customers continue to receive the financial help they need, while capping the total level of deferred wholesale charges in order to reduce the overall impact on debt.

Given that eight retailers have currently opted into the deferral scheme, we do not believe the best approach would be that of Option 1, to terminate deferrals at the end of July 2020. This could adversely impact customers if retailers' ability to access funds to provide vital financial support to meet customers' needs is affected.

We are also in agreement with Ofwat that Option 3, to extend the current deferral scheme to allow retailers to defer up to a maximum of 40% of wholesale charges until the end of October, can be ruled out based on evidence. While we know that the deferral scheme is being used, in the period April to June, the maximum amount deferred by these retailers was around 30% of the cumulative primary charges incurred and six out of the eight retailers have made additional voluntary payments to the minimum payment required. We also know that customers' premises are starting to re-open. This suggests that the market is making steps to return to trading but that financial relief is still needed. Option 2 should support this position.

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.

On balance, we believe that the capped amount of liquidity support could be reduced to a lower level. As the maximum amount deferred by the eight retailers using the current scheme was around 30% of the cumulative primary charges from April to June, we would suggest reducing the cap to a maximum of 30%. The evidence in the consultation shows that at the end of June only two retailers had cumulative outstanding charges over 25% and all were below 30%. This suggests a further reduction could be implemented.

However, we would not suggest a reduction below this at this stage. Although there has been a gradual re-opening of the economy since the pandemic peak in April and May, there has already been a further local lockdown in the Leicester area. Since there is a strong possibility of further local lockdowns – meaning the shutting of re-opened businesses - it is sensible to set a cap at 30% until there is greater confidence that business customer premises will not need to close once again.

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.

It would be sensible to allow retailers to opt into the scheme until October 2020. Similarly retailers have the choice to pay wholesalers under normal practices. Keeping the liquidity scheme open until October will provide support while the temporary vacant flag is unwound until the end of September, and enable appropriate funds to be in place to assist customers as they start to re-open their premises.

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?

Based on the evidence provided in the consultation document, we are supportive of Option 3. We agree that this would encourage important trading party communication by allowing them to agree terms appropriate to meet their specific needs, and the retailers' customers' needs, while setting time specific check points for repayments.

On balance, we believe it is the best approach to respond to trading parties' and the markets' needs. However, we want to see liquidity support afforded to retailers being appropriately reflected in the financial help and support being offered to customers. We will be closely monitoring enquiries and complaints from business customers to ensure this happens.

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 do not have a strong view on the suggested percentages to be repaid at the two checkpoints. This should be reflective of the current market evidence and based on the financial information provided by trading parties. However, we strongly support having the two dates of November 2020 and January 2021 when repayments must be made to ensure repayments are being adhered to. It is also important that bespoke repayment profiles are clear and transparent when published, to ensure trading parties can be held to account.

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.

On balance we agree that the vacancy flag could expire on 31 July 2020. However, we want assurance that retailers will strive to obtain meter reads to ensure customers' bills accurately reflect the levels of consumption. This could be through a meter reading operative, a customer's own read where they can safely provide it, or through a wholesalers own data. We are concerned about customers experiencing bill shocks as the temporary vacancy flag is unwound and every effort must be made to ensure customers' bills reflect their water usage, or lack of, during lockdown.

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 agree that retailers should make every effort to obtain meter reads in the first instance. For business premises that are re-opening, it is vital that customers' bills reflect actual consumption, which is likely to be reduced given the current situation. Inaccurate estimation is already a large concern for business customers, so we do not want to see this problem increasing, and exacerbate affordability concerns. If retailers are struggling to obtain reads themselves, we agree they should be engaging with affected customers in an effort to obtain these, where it is safe to do so.

We are particularly concerned about businesses that are either unable to re-open yet, or those that could be subject to localised lockdowns. These customers may not be in a position to take meter reads, with their consumption levels likely to be zero, or significantly reduced. Retailers, therefore, need to ensure that these businesses are prioritised with regards to charges being as accurate as possible.

We agree that a more accurate estimation of charges would be desirable in the absence of meter reads being available. This could be achieved using wholesalers own readings, where available. However, the primary focus needs to be on ensuring that charges reflect actual consumption. We do not want to see retailers resorting to improving estimation before all efforts to obtain reads have been exhausted. If estimation is the only option, retailers should be calculating this after engagement with such customers, with a thorough assessment of their circumstances undertaken.

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 agree that there should be a reasonable period for retailers to review the status of each flagged business customer premises, and to allow sufficient time for customer engagement to take place. Given our concerns outlined in answer to Q7, it is vital that there is the opportunity for customers to outline their circumstances, arrange for meter reads to be taken and prepare for the resumption of charges.

We would urge retailers to engage with all affected customers long before the end of September 2020. This is due to the fact there will be a large number of businesses still marked as temporarily vacant, where the criteria would have ceased to apply once they re-opened. As these business customers will be liable for charges from that point, it is crucial that retailers engage with them as soon as possible to allow time to re-commence payments, and therefore limit the amount that may be backdated to the date of re-opening.

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 with the principle of incentivising trading parties to improve performance, and that the existing MPS framework provides a good basis for achieving this. If a new MPS were to be introduced in this case, it would seem reasonable to apply 'charge levels' as illustrated in Table 4 of the consultation document.

Introducing such an incentive could encourage swifter engagement with customers. However, there is a risk that this could inadvertently dilute the level and quality of customer engagement as retailers seek to remove vacancy flags as quickly as possible. Given the impact this could have on the accuracy of charges, there would need to be an accompanying incentive for retailers to ensure that meter reads are taken, and/or YVEs are amended appropriately.

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 strongly support incentives being introduced to improve the quality of consumption data. The problems caused by the lack of accurate data in the market have long been a concern to us due to the adverse impact on customer billing. This is an issue that could potentially worsen due to the effects of Covid-19, so we support incentivising retailers to increase the use of meter reads in place of YVEs.

Submission of accurate consumption data should take precedence over improving YVEs. However, in the absence of being able to obtain meter reads, we recognise that the importance of accurate YVEs increases when determining customer charges. We would, therefore, welcome any measures designed to improve the accuracy of YVEs, or the introduction of a better form of estimation.

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 are unclear on why YVEs may have been set arbitrarily low, so it is difficult for us to comment on the rules that would be needed in CMOS to identify these. However, if the current process for setting YVEs is not working, or is not being followed correctly, then we are supportive of measures that seek to improve this.

It would be important to try and link a reputational API incentive with customer experience. If YVEs are not set accurately, this can cause an adverse impact on customer billing. Therefore, we would be keen to see the level of action taken in this area being determined by the likely negative impact on customers. For example, CMOS data could be used to identify inaccurate YVEs, which could then be cross referenced to billing complaints data to give a picture of the customer impact. If the customer impact is greater, the financial penalty in the incentive should also be stronger.

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?

As a number of wholesalers have access to consumption data, it would be beneficial for constructive relationships to form, or continue to endure, with retailers. The sharing of such data could increase the number of meter reads in CMOS, and improve data accuracy, which will ultimately benefit customers in the form of greater accuracy of charges.

We are aware of a recent market codes change that has made it easier for wholesalers to share metering data. We believe that this will improve the level of accurate data available to retailers, but we would also support introducing financial incentives if it is apparent that wholesalers are not engaging as well as they could be.

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

We are broadly supportive of the expectations on retailers. It is likely that many customers will be unaware of the temporary vacancy changes, and therefore unaware of the changes to their charges. It is crucial that customers are provided with accurate and accessible information, so we support the requirements in respect of this.

We are particularly concerned at the impact on customers caused by business premises either being incorrectly marked vacant, or incorrectly left occupied. In both cases, a financial disadvantage will be experienced, where it is possible the customer either had no input into the decision, or were advised charges would not apply. We welcome the emphasis on retailers taking a pragmatic approach, and working constructively with wholesalers on whether or not charges are applicable. In addition, we welcome and support the call to trading parties to make decisions that favour the customer where there are marginal cases.

It is likely that retailers may make decisions on a business premises' occupancy status that customers disagree with. As well as ensuring that customers understand the impact on bills, there should be a clearly defined appeals process made clear to the customer, which includes the type of evidence that will be considered by a retailer.

We support the expectations on trading parties working together. As outlined in answer to Q12, we believe a constructive relationship between retailers and wholesalers will benefit customers in the form of greater consumption data accuracy. We agree with the role that incumbent wholesalers can play, in particular, and would urge that they share consumption data in all cases, where they have it.

We also support the roles that Ofwat & MOSL intend to play in the unwinding process, and welcome the intent to engage with trading parties if issues become apparent. As well as monitoring the unwinding of vacancy flags and changes to YVEs, we would also want to see monitoring of the level of actual meter reads being submitted to CMOS. As stated previously, it is vital that affected customers benefit from accurate consumption charges during this period.

We will also play an important role is gathering data from customer enquiries and complaints.

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 want to see MPS charges coming back into effect from the end of September 2020 and believe this is consistent with the approach taken in other areas (e.g. the removal of temporary vacancy flags by the end of September). While we supported suspending charges as a temporary measure when trading parties could not reasonably be expected to meet performance standards, the need for this is reducing as lockdown restrictions ease. If such restrictions continue to ease, trading parties should be in a good position to be carrying out business as usual activities by September. We would have expected performance delivery to be maintained where it was not impacted by the pandemic, reapplying market performance charges will ensure a greater incentive is in place.

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

We welcome any incentives to allow the MPF standards to return to normal operation in a smooth and robust way, and for this to be done as quickly as is practicable. Therefore, it would be sensible for OPS charges to be introduced at the same time.

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 outlined under Q14, we believe that the continued easing of lockdown restrictions will mean that trading parties will encounter less difficulties in obtaining meter reads as businesses gradually re-open. Therefore, we feel that there is a case for all MPF charges to be re-introduced in line with the move towards a more ‘business as usual’ position in the market, and continued service delivery to customers.

17. 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?

The consultation succinctly outlines why Ofwat feels that it should discount options 1 and 3 from consideration - unnecessarily tying up money in credit arrangements when there is an economic downturn, or potentially exposing retailers to a cliff face of sudden, significantly increased credit requirements. We find no reason to oppose these views and support option 2.

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 that no new changes to the Customer Protection Code of Practice are required at this time. We have worked with Ofwat to ensure that retailers are publicising the current protections on their websites in a clear and transparent way so that customers are informed of their options. We had concerns at the slow speed with which some retailers complied with the requirements, with some websites containing either no information or inaccurate or out of date information for a number of weeks after the changes came into effect on 1 June 2020. However, we have pressed retailers to ensure the information is clear and understandable so customers know what help and support is available to them.

It is important to monitor closely how customers are able to access the various Covid-19 Repayment schemes and we will continue to work with Ofwat on this matter. We will also monitor complaints from customers to ensure retailers are complying with their requirement to tailor Covid-19 repayment schemes to reflect customers' individual circumstances.

A1. What are the benefits and risks associated with implementing different credit support requirements for Retailers who have and have not deferred wholesale charges?

[redacted]

[redacted]

A2. What assumptions are you making about the level and speed of return of NHH water consumption?

[redacted]

A3. Please explain the makeup of your credit support and levels of Unsecured Credit Allowances in the pro-forma on the following page.

[redacted]

A4. Please tell us how regularly you reduce or increase credit lodged to match falls and rises in the P1 Settlement Report and explain what the associated costs are. Please also clearly state the monthly cost or saving you would expect to incur across your portfolio as a result of maintaining credit equivalent to July P1 vs credit equivalent to March P1 and provide supporting evidence where necessary.

[redacted]

Enquiries

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July 2020