
Covid-19 and the business retail market: Proposals on next steps

This document summarises Ofwat's current position in light of [responses](#) to our [consultation](#) on next steps. We will continue to analyse evidence from the consultation and consider the recommendation of the Panel before making and publishing final decisions after markets close (post 4:30 pm) on Thursday 30 July. The recommendations in sections 1, 3 and 4 below are consistent with the change proposal CPW101 and CPM031 that we are putting to the Industry Panel for recommendation on 28 July 2020.

Our focus is to protect the interests of business customers affected by Covid-19, including by avoiding systemic Retailer failure and ensuring our interventions do not come at the expense of the financial viability of the Wholesalers. To be clear, protecting customers does not equate to preventing individual Retailers from exiting the market, as supplier exit is a feature of any functioning market. Nor does it mean absolving business customers of their requirement to pay for services they have knowingly and legitimately consumed in the operation of their business. But it does mean providing business customers with appropriate and targeted relief, for example by providing customers with additional time to pay their bills and making sure they are not charged for services they have not consumed and are not liable for.

1. Liquidity

Reflecting evidence from the public consultation we are minded to allow a limited extension of liquidity until the end of October 2020. The extension is intended to provide Retailers with flexibility where Retailers are still in the process of securing alternative sources of finance. The total amount any one Retailer will be allowed to defer will be subject to a cap equal to 40% of primary charges due from March-July 2020, effectively limiting the total amount of liquidity available to the amount that was made available in our [April decision](#). The cap will apply from the August payment run, with reports sent to MOSL on the 20th August and due on 30th August.

We are minded not to allow Retailers to opt into the scheme if they had not already opted in as of July 2020. Retailers who have opted to defer charges will be required to continue to submit Monthly Financial Reports to MOSL with minimum payments calculated using the higher of the X and Y factors currently set out in CPW096. Any

minimum payment will be subject to the cap on the total amount of deferred payment. For clarity, the cap and X and Y factors will not affect those trading parties on Alternative Payment Terms (pool C of the monthly financial report).

We are proposing an update to schedule R7 that will explicitly set out the questions Retailers will need to respond to regarding their access to alternative sources of finance including government support.

In respect to the unwinding of deferred amounts, we retain our view that all deferred wholesale charges must be paid off in full by the end of March 2021, failing which the Retailer shall be classed as a Defaulting Trading Party. All other amounts due by the Wholesaler to the Retailer shall remain subject to the default provisions of section 10 of the Business Terms

We are minded to allow trading parties to bilaterally negotiate a repayment profile that is appropriate for their specific situations. In the absence of an agreed repayment plan between trading parties Ofwat will set out a backstop repayment profile. The backstop profile sets out that Retailers should have repaid 33% of outstanding deferred income at 31 October by end of November, 66% by end of January and 100% by 31 March 2021. To ensure transparency any negotiated repayment profile must be submitted to MOSL and will be published on its website.

2. Covid Temporary Vacancy Flags

When businesses were closing as a result of Covid-19, it appeared likely that consumption of water and waste water services would reduce dramatically. Given the challenges associated with getting meter reads during lockdown, this meant that businesses were likely to be billed on the basis of (higher) historic meter reads. To ensure charges more accurately reflect (reduced) levels of consumption, we allowed Retailers to use a bespoke temporary vacancy flag where premises were: (a) completely closed to the public, visitors and workers; or (b) usual activities at the premises had fallen by 95% (as a proxy for a similar reduction in consumption). The situation going forward has changed in a number of respects. For example the majority of businesses are now permitted to reopen and despite social distancing measures this should result in levels of consumption that exceed 5% of historic levels. Retailers also now have experience of engaging with their customers in a lockdown scenario and so should be better able to prepare and anticipate what to do in the event of local or regional lockdowns. For these reasons and reflecting evidence received from the consultation, we are minded to let the use of this temporary vacant flag expire at the end of July 2020.

Following the expiration of these vacancy flags on 31 July, we remain minded to allow Retailers until the end of September to remove the flags in CMOS. In the event of reduced consumption or local lockdowns, we are minded to suggest Retailers should seek to obtain meter reads to reflect actual consumption in the market, or where a meter read cannot be obtained, the Retailer should engage with the customer to obtain an accurate estimate of consumption.

We are minded to introduce an incentive for the removal of the temporary vacant flag, coming into effect from October 1 2020. We are minded to consider setting a financial charge against this incentive and consider whether it would be appropriate to allow for a small proportion of supply points to be exempted from this charge. We are also minded to introduce an incentive this autumn to monitor inappropriate use of yearly volume estimates (YVEs) to encourage more accurate consumption data in the market.

3. Market Performance Charges

Market performance charges have been suspended until the end of July 2020 (via code changes CPM023 and CPW090). Reflecting evidence received from the public consultation we are currently minded to allow the following further extensions:

- For OPS charges we are minded to extend the suspension of charges until the end of September 2020; and
- For MPS charges, we are minded to extend the suspension of charges until the end of October 2020.

4. Credit

Reflecting evidence received from the consultation we remain minded to require Retailers to maintain credit support requirements at March 2020 levels until it has switched off all its temporary vacancy flags. Beyond this date, we propose that credit support requirements would then be calculated based on primary charges that are due. For clarity, we are not requiring all temporary vacancy flags in the market as a whole to be removed before standard credit support requirements apply to an individual Retailer, or for that Retailer to have repaid all outstanding deferred wholesale charges.

5. Customer Protection Code of Practice (CPCoP)

Reflecting evidence received from the consultation our current view is that no changes are required to the CPCoP in light of the other proposals that we consulted on. When the temporary vacancy flags are removed, customers affected by Covid-19 will continue to be protected by the requirement on Retailers to offer Covid-19 repayment plans, tailored to the needs of the affected customer.