COVID-19 and the business retail market 'next steps' consultation: Everflow Water Response

Summary

The past few months have been extremely testing for all in the water market, but we would like to thank Ofwat for responding swiftly and decisively at the outset of the COVID-19 crisis. The measures which have been put in place to protect customers have made a real difference to businesses in England, and we are sure this has had a huge impact on building customers' trust and confidence in water services. At Everflow Water, we have had a steady stream of customers expressing how impressed they have been by our handling of COVID-19. Our Net Promoter Score is currently +49. This would be considered 'excellent' on any international comparison basis and is higher than the scores of leading companies such as John Lewis (+39), Apple (+47) and Amazon (+44). The average score in the UK Water market is -10.

The consultation on the next steps for the water retail market reveals Ofwat's clear desire to return to 'business as usual' as soon as possible. We understand and share this desire, although we are concerned that Ofwat's proposed timeline to recovery does not recognise how uncertain the next few months will be. This time of re-emergence from the lockdown was always going to be particularly uncertain and it is widely accepted that the recession which follows the COVID-19 crisis will be severe, although the initial pace of recovery will determine just how severe this is.

In light of this, we believe there is a strong case for extending the liquidity support for three further months, and for extending the temporary vacancy scheme to the end of September.

We recognise the need for limits to be placed on both schemes and we support the proposed cap on liquidity support. We suggest the evidence requirements for continuing to use the temporary vacancy flag beyond 1st August 2020 could be increased. We would also be happy to provide further assurance on how we are winding down the use of the temporary vacancy mechanism, in line with the latest guidance from MOSL, and suggest that all retailers should do this.

We strongly suggest that CPW061 should be implemented as part of the unwinding of liquidity support and the temporary vacancy mechanism, to provide extra incentives for retailers to return to business as usual as quickly as possible. It has taken some time for this code change to progress, but we feel payment performance benefits should be made accessible to companies which have removed all temporary vacancy flags and repaid all deferred wholesale charges (which could be incorporated into the definition of late payment). This would also improve liquidity by providing cash directly into the market, by strengthening business cases for accessing financial support, particularly for unassociated retailers.

We think Ofwat is right to delay a decision on the question of how bad debt will be addressed for a short while longer, but we feel the timetable needs to be revisited. Firstly, it must be recognised that the full scale of bad debt will not have crystallised by autumn 2020. Secondly, and more importantly,

we believe a policy decision will nevertheless need to be taken on capping retailers' exposure to bad debt before the liquidity support scheme ends, because the uncertainty surrounding the question of bad debt will make it much more difficult for retailers to secure the necessary financial support from Government or their bank.

Response to consultation questions

Q1: 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?

We support Option 2, on the basis that the risk of non-payment may be at its highest over the next three months. The monthly cap on deferred charges should remain at 40%. This is a critical moment for our customers, who are just starting to rebuild their businesses. Simultaneously, they are losing much of the support that has kept them afloat over recent months, potentially including the benefit of the temporary vacancy scheme, which has been the most significant direct customer protection measure implemented in the water retail market during the crisis. It would certainly seem imprudent to end both the liquidity support and the temporary vacancy scheme at the same time, as the combined impact could be quite significant and have a detrimental impact on customers.

We accept the proposal to cap total deferrals to 40% of primary wholesale charges due between March and July 2020.

Q2: 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.

If there is to be a cap on the total deferral of wholesale charges, it would seem unnecessary to introduce further caps on monthly deferrals. In addition, we are entering a very uncertain period where a single month could prove to be particularly challenging. This could be connected with the winding down of the vacancy mechanism, or linked to a local lockdown, for example.

The wholesale companies need to take some responsibility for slower cashflow too. The bilaterals process is currently working very slowly, to the extent that it is affecting our cash position. At present, [redacted] of our customer debt (c. 10% of our aged debt), is linked to unresolved bilateral transactions. Some of the slowness to respond to bilateral requests means that we are paying interest on deferred charges which might have been payable if bilateral transactions had been completed on time.

Q3: 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.

This question does not apply to us.

Q4: 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?

We are in agreement with Ofwat that Option 3 would be the best approach. Having a backstop arrangement will mean all parties, including customers, are protected from the impact of uncertainty or delays in returning to business as usual where an agreement cannot be reached.

Q5: 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 support the proposed backstop arrangement.

Q6: 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 that there should be an expiry date on the temporary vacancy mechanism. However, we think that 31st July is too early, and ending the scheme too soon will have a detrimental impact on the customers worst affected by COVID-19. Those who have not been able to open yet are likely to be worst affected. We do not see why businesses which remain closed after July 31st, should be treated differently from 1st August.

We think Ofwat has incorrectly judged the extent to which businesses are up and running as usual. Many of our customers are still unable to open because they cannot comply with the government guidelines on how to do so safely. We are not convinced that the ONS survey is the best indicator of the number of businesses which were COVID-19 Affected Customers by the end of June. Some of the businesses which were trading at the end of June will have been doing so remotely while their premises were closed.

The temporary vacancy mechanism has been highly effective in protecting customers. We are concerned that withdrawing support from customers who still need it could somewhat undermine these gains. Not all businesses will have reopened by 31st July, and where there is evidence to prove this then we believe customers should continue to be protected from the burden of paying charges while they are unable to operate.

Our suggestion would be to extend the scheme until the end of September 2020, and that the two main concerns raised by Ofwat could be addressed as follows:

1. The issue of data quality is cited as one driver for ending the temporary vacancy mechanism at the end of this month. However, we do not believe the data issue is being driven by the temporary vacancy rate. The difficulties in obtaining meter readings have been far more significant and it will take some time to recover the position. The reintroduction of MPS charges will be a better way of improving market data, although they should be applied at the right time.
2. The potential for overuse of the temporary vacancy mechanism could be addressed by increasing the evidence requirement for use of the temporary vacancy flag after 1st August. For example, it could be a requirement to have evidence of recent customer contact in the case of every property which remains 'temporarily vacant'. We think all retailers should update their assurance statements in line with the latest MOSL guidance on winding down the vacancy mechanism. At Everflow Water we have recently begun the process of deeming customers reopened, just as a proportion of our customers marked temporary vacant were 'deemed closures'.

We note that Ofwat appears to have ruled out the option of using the normal vacancy status, by sharing its view that paragraph 3.1.5 of CSD, which says "A property that is prohibited by law from being occupied, for example an unsafe property, is also considered to be a Vacant Premises", would not apply because it is unclear what legislative provision this would relate back to.

Q7: 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 do not agree with the proposed method of managing a local lockdown. We do not think it would be sensible to use regular meter readings taken by retailers, third party service providers, or customers for several reasons:

- Based on the example of Leicester we do not want to assume that local lockdowns will be short lived. Cases in Leicester have been rising continuously since March, so it could be many months before businesses in the city can safely reopen.
- We do not think it would be justifiable to ask meter readers or customers to put themselves at unnecessary risk by taking meter readings.
- Ad hoc meter reading is very expensive and inefficient, and it would have a detrimental impact on cyclical meter reading (where we already have a significant backlog).

There are drawbacks to all the options we can think of for managing local lockdowns. From a customer perspective, the best option would probably be to use the YVE. Given the issues which have already arisen with arbitrary adjustments being made to YVEs, there would need to be clear controls in place to ensure this approach was not abused.

Q8: 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.

In line with our response to question 6, we would suggest delaying the date by which retailers would be expected to remove all temporary vacancy flags to the end of November.

Q9: 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 do not object to the proposal to charge businesses which do not remove the vacancy flag by a defined date, provided that a reasonable date is set (i.e. two months after the scheme closes would be reasonable).

Q10: 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 have not adjusted any YVEs in response to COVID-19. Our YVEs are rarely used, because we always use the latest available meter reads as a basis for billing, even if they are very old.

We understand the great importance of maintaining accurate consumption data for customers, and for being able to manage supply and demand, and agree that an incentive to improve consumption data quality could speed up the data improvements required at the present time. Obtaining meter reads needs to be the priority, and we feel the wholesale companies have an important part to play in this. Over the past year, the increasing availability of wholesale meter reading services has led to significant improvements in successfully obtaining meter readings. If all of the wholesale companies could offer meter reading services, this would have a big impact. To illustrate the point that the wholesalers are, as asset owners, best placed to provide effective meter readings services, we provide this evidence showing how the involvement of wholesalers is helping us to address the issue of long unread meters:

	Proportion of meters LUM before we used the Wholesaler's meter reading service	Proportion of meters LUM in Feb 2020
Anglian	19%	6%
Yorkshire	7%	2%
Severn	No Service	24%
Thames	No Service	19%

Anglian Water and Yorkshire Water have been particularly exemplary in their service provision. Where they have not been able to obtain meter readings for LUMs, both companies have provided historic data free of charge so that we can improve the accuracy of consumption data and the accuracy of our customer's charges.

Q11: 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?

The best way of identifying arbitrarily low YVEs would be to look at the latest actual yearly consumption recorded, based on available meter reads in the market, and compare this with the current YVE.

We would prefer a financial incentive to a reputational incentive. Although we have only ever updated YVEs on the basis of good information, or where a YVE was missing, we could be affected because of customer transfers between companies. We are concerned by the potential for us to inherit, or to have already inherited, customers with arbitrarily low YVEs. Financial incentives would be a more proportionate way to tackle the problem than reputational incentives.

Q12: 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?

Some of the wholesale companies are already offering a great meter reading service, while others are not offering a service at all. It is our view that wholesale companies are best placed to meet the demand for meter reading services in the water market under normal operating condition, while manual meter reading is still the norm. There is an even greater demand for meter reading now and we suggest all wholesalers should be encouraged, or indeed incentivised, by Ofwat to offer a meter reading service. Companies with the ability to provide automated meter readings should be required to make this data available through a (paid for) meter reading service or justify why they are not doing so.

Wholesalers also need to be incentivised to resume normal service on bilateral transactions, or at the very least set out a programme towards recovery of normal services.

Q13: Do you agree with the expectations set out above, which will guide trading parties through the unwinding of the temporary vacancy flag?

We agree with the expectations Ofwat has set out.

Q14: 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 would have no objection to the resumption of non meter reading MPS charges from the end of September 2020. However, it would be unreasonable to expect meter reading frequency to recover to pre-COVID levels by the autumn of this year. Please see our response to Q16.

Q15: Should OPS charges be introduced before MPS charges? Please explain your answer and provide supporting evidence wherever appropriate.

Yes, OPS charges should be introduced before MPS charges. The slowdown on bilateral transactions is directly impacting on our ability to collect cash. The reintroduction of OPS charges will incentivise wholesalers to improve service on bilateral transactions.

Q16: Should non meter reading MPF charges come into effect before meter reading MPF charges? Please explain your answer and provide supporting evidence wherever appropriate.

Yes. We would not object to non meter reading performance charges coming into effect at the end of September 2020, but it would not be reasonable to reintroduce meter reading performance charges at that time.

We are now using wholesaler meter reading services for a significant proportion of our meters [redacted] and this is set to increase to almost [redacted] by January 2021. This is driving significant improvement for customers, and we would like to see this continue increasing. Following the COVID-19 lockdown, **the position wholesalers are taking is that they will not attempt to catch up on missed meter readings, but resume the meter reading schedule at the point service resumes.** We think this is a pragmatic approach, but it means it will take 6 months from the point when normal meter reading services resume to recover meter reading rates to pre-COVID level. Some wholesalers have not yet resumed meter reading on internal meters and we have been advised that normal service will fully resume in September or October. The majority of our customers are SMEs with internal meters. Retailers should not be penalised where wholesalers are unwilling to increase the speed of reading meters either through choice or resource constraints.

Alongside wholesale meter reading services, we also use a third party meter reading provider, which is still only offering external meter readings. The success rate is still low even for external meters, as some customers are unwilling to allow meter readers on site even to read a meter externally. With a significant backlog of meters to read for numerous utility service customers, our third party meter reading provider is unable to provide additional capacity to catch up on meter reading. As manual meter reading capacity was already stretched in the market before COVID-19, we will struggle to find alternative third party meter reading services.

We suggest meter reading MPS charges should therefore resume on 1 April 2021.

Q17: 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?

We agree that Option 2 is the best.

In addition, we suggest there is a strong case for progressing CPW061 at this time to incentivise retailers to repay their deferred charges, and to improve liquidity for unassociated retailers.

Q18: 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 the CPCoP does not need any further amendments.