

Introduction

We welcome the opportunity to comment on the next steps in the Water Retail Business Market and the following paragraphs detail our thoughts on the specific consultation questions asked. Water UK is submitting a response on behalf of the wholesale community and our position is broadly aligned with that submission. We have limited our specific comments to areas where we have either relevant information to provide or wish to stress a particular point or a further option for consideration. The response is structured to respond specifically to the consultation questions asked.

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?

We are fully aligned with the Water UK response on this question.

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.

We are fully aligned with the Water UK response on this question.

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.

We are fully aligned with the Water UK response on this question.

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?

We are fully aligned with the Water UK response on this question.

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 are fully aligned with the Water UK response on this question.

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 are supportive of the Water UK response and would add the following additional information in support of the position. We have seen a very significant number of premises made vacant under the covid 19 mechanism. Our analysis/assurance activities around the use of the flag has highlighted a

number of errors in the use of the flag, and the restarting of meter reading activity is now also highlighting a significant number of premises potentially using more than 5% consumption during the covid period. Summary details of the analysis are attached in the form of a recent questionnaire submitted to MOSL. Retailers have responded to challenges and the provision of evidence and they have also been proactive in some circumstances in correcting errors. However, it is clear that there will be a significant number of cases around the 5% criteria that will require resolving.

To align with the removal of the majority of covid 19 restrictions it is timely to remove the ability to use the valid in this way and this will also ensure that focus can turn to addressing the number of >5% consumption examples. In this regard the receipt of a timely meter read is vital to accurate assessment of the situation.

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 are fully aligned with the Water UK response on this question.

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 support the Water UK response and would make the following additional comments.

We recognise the need to give retailers time to make these changes but would be supportive of a more ambitious timescale for removal of the flags, specifically by the end of August 2020. The vast majority of businesses are now re-opening or have re-opened and as such the correct status should be occupied. This is just a balance between allowing sufficient time to ensure an accurate re-opening date, or even confirmation that they did close, and the need to return the market to an accurate vacancy status. The original intention was to allow a 2 month period and with restrictions being first eased in June and then further confirmed at the start of July, we feel that the end of August 2020 would in effect have allowed a 2 month window.

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 are fully aligned with the Water UK response on this question.

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.

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?

Answer to Questions 10 & 11.

The YVE should ordinarily form a limited, but important part of the market's estimation and settlement process. It serves 2 primary functions; the basis for estimation in the absence of an adequate meter read history and it provides a "capping" function for forward estimation. The significant parameter to monitor are the number of SPIDs that have settled using the YVE Cap algorithm. This is currently reported each month by MOSL so the reporting functionality is already established. We would propose that an API is established, based on market analysis, that investigates all trading parties with a score above a certain %. A snap shot of pre and post covid performance can quickly be obtained and this will enable the impact to be observed. The existing IPRP process could be used to address outliers or obvious anomalies. This should be relatively simple to implement and monitor. Retailers would be required to evidence the reasons for the relevant YVE when challenged. Changes should not be made without appropriate evidence.

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?

We are fully aligned with the Water UK response on this question.

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 are fully aligned with the Water UK response on this question.

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 are fully aligned with the Water UK response on this question.

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

We are fully aligned with the Water UK response on this question.

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.

We are fully aligned with the Water UK response on this question but have the following additional comment to make in respect of Q14 & 16.

A key element to the successful unwinding of the use of the covid 19 vacancy flag will be the receipt into the market, in as timely a fashion as possible, a read for as many re-occupied premises as possible. This is a key requirement as it will ensure that NHH customers have as accurate a bill as possible and will help significantly in quantifying and understanding the consumption position at these premises during the covid vacancy period. We fully appreciate that this presents a significant challenge and support Ofwat's encouragement for the use of customer reads when necessary.

We are supportive of a mechanism that motivates retailers to get these reads into the market but given the practicalities of achieving this we wouldn't anything that would be overly punitive. It would seem appropriate to monitor the % of meters that get read at effected premises as a measure in order to understand the position by Retailer/Wholesaler. Actions could then be instigated in the event of any anomalies in performance.

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?

We are fully aligned with the Water UK response on this question.

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 are fully aligned with the Water UK response on this question.

Appendix Questions

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]

[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]

Northumbrian Water

July 2020