

10 July 2020



BY EMAIL TO: covidbusinessretailmarket@ofwat.gov.uk

Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Registered Office:
Portsmouth Water Ltd
PO Box 8
Havant
Hampshire PO9 1LG

Tel: 023 9249 9888
Fax: 023 9245 3632
Web: www.portsmouthwater.co.uk

Please ask for **Helen Orton**
Our Ref [REDACTED]
Your Ref

Dear Sir/Madam

Thank you for the opportunity to respond to this consultation. We have set out our response to each of the questions below. Given the tight time frame of this consultation, should you require any further information please do let me know.

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 have been supportive of the revisions made to mitigate the impact of COVID-19 on the NHH market. However, as business as usual gradually returns it is clearly important to also make a phased return to business as usual in the NHH market.

We are broadly in favour of Option 1 as we feel that the cessation of the scheme at the end of July aligns well to the general trading conditions returning to more normality.

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.

If option 2 were to be implemented we feel strongly that the cap should be closely managed downwards (to a lower cap of no more than 25%) reflecting the return to a lower risk (business as usual) environment and allowing wholesalers to manage their own risk exposure.

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.

If Option 2 were implemented we feel strongly that no new retailers should be allowed to opt into the scheme if they have not already done so at the cut-off point at 31 July 2020. This is important to Wholesalers in order for us to effectively manage the additional risk which would occur if this were to be allowed (particularly as companies come up towards half year reporting periods).

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 in support of Ofwat's "minded to" position of option 3. We feel that this is simple to apply, it allows a sensible and proportionate "glide path" but does not prevent earlier repayment if this is preferable by the parties.

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 agree with this proposal and feel that it demonstrates a clear and proportionate "glide path" to full repayment of deferred amounts. This appears to be an appropriate middle ground to encourage a reduction in exposure over time but permit a reasonable and achievable profile.

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 have previously expressed our concerns about the appropriate use of the COVID Vacant Flag. We therefore support that this be permitted to expire on 31 July 2020. However, together with this we need clear guidelines and policies from MOSL setting out how this should be actioned eg;

- Checks to ensure that the flag is not simply switched from COVID vacant to Vacant.
- Agreed timeliness of updated reads being entered into the market and appropriate use of YVEs
- Treatment in relating to the need to backdate charges where subsequent reads show that consumption (above the COVID vacant guidelines) has been occurring.

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 agree with this proposal but also recognise that it may take some time to get all reads into the market on a timely basis. We agree that retailers and Wholesalers should work collaboratively to achieve this and that, in the absence of reads appropriate estimates (YVE) should be applied to drive the most accurate billing possible in the circumstances.

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 are supportive of an "end of September" deadline for the removal of flags. However, we would seek further clarification about how this is defined relative to settlement runs. In particular it would be preferable that this is completed prior to final September settlement.

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 do feel it is appropriate that some form of incentive should be in place, given the importance of this change. However, recognising some of the practical challenges and the need for accurate data perhaps, at least initially, this should be a reputational rather than a financial metric.

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.

MOSL would be best placed to analyse the data and devise an incentive. It is recognised that the market has arbitrarily low YVEs applied over the last 3 months. Is MOSL satisfied that YVEs were applied correctly before COVID19? In our experience, YVE has been a low priority field for Retailers, therefore historic data

in these fields may be inaccurate. Therefore, it could be unfair on Retailers to introduce an MPS or API measure to monitor the use of YVE's.

It could also be unfair to calculate the YVE based upon previous consumption history as consumption patterns may have now changed due to social distancing measures, and we do not know how long these measures may remain in place.

We would prefer to see greater Retailer focus on the timely removal of the temporary vacant flag and obtaining accurate meter reads, rather than an MPS or API for the use of YVEs.

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?

Any such incentive could normally be based on being more than a percentage lower than the read history, but that does not work if the YVE has been recently adjusted. It could be too difficult to devise a fair scheme, unless the focus is on blank or zero YVEs on Occupied properties.

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 very supportive of the aim to unwind temporary vacancy flags as soon as possible. Whilst this remains the primary responsibility of Retailers, we recognise the importance of working collaboratively to ensure that the best quality of data is entered into the market. Since implementation of this code change, we have been undertaking desktop studies and site visits to check accuracy of the temporary vacant flag. WE have notified Retailers of any inaccuracies, so that the market data can be corrected.

We always take a collaborative approach to working with Retailers. However, given the very clear division of market responsibilities we do not feel that a specific Wholesaler incentive measure is appropriate or required.

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 feel that the expectations set out appear reasonable. As we have noted already we feel it will be essential that all parties have clear and sufficiently detailed guidance and definitions throughout this process. For example there should be clarity regarding backdating of occupancy where premises have used >5% COVID Vacant defined consumption.

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.

On balance we recognise that COVID19 has caused significant upheaval to day-to-day business activities for NHH customers, Retailers and Wholesalers. We recognise that there will remain a number of practical challenges. Whilst September feels to be an appropriate lag to allow time for a greater return of the country to "business as usual", we feel that additional leeway to the end of October should be applied recognising existing levels of uncertainty over "return to normal".

Given trading parties will be at various stages of returning to BAU, it may be necessary for MOSL to look at outliers to ascertain if there is any reason for them either performing exceptionally well, or not, to ensure TPs are interpreting correctly.

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

We believe it would be clearer, easier to administer and monitor if the dates for reintroduction of OPS and MPS charges are aligned.

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 believe it would be clearer, easier to administer and monitor if the dates are aligned, and the MPC continue to monitor performance.

Consultation question 17: Note – responses to this question will be shared with MOSL. Of the three 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 would support Ofwat's "minded to" position of Option 2 to maintain credit support levels at pre code change values. We concur with the rationale put forward for this option. It would be helpful to have further clarification of the position in terms of "until all the temporary vacancy flags are switched off". We presume that this means until all of the COVID Vacancy flags have been removed by the Retailer and not until the use of this flag expires (ie end of September).

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 have not identified a need to amend CPCoP at present. However, as we have noted in previous consultations, it is important that Retailers have the appropriate tools to manage NHH customer debt effectively. As such the Retailer view on this point will be important.

Given the tight reporting timeframe for this consultation, should you require any further information or explanation, please do not hesitate to contact me.

Yours faithfully



Helen Orton
Finance and Regulation Director