SES Business Water
Pixham End
Dorking
Surrey, RH4 1GB

Tel 0203 750 9300
Website: sesbusinesswater.co.uk
Email: query@sesbusinesswater.co.uk

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Covid-19 and the business retail market – Consultation on next steps

Dear Georgina and Dan

Please find below our response to the above consultation. We have wherever possible sought to provide alternative proposals where we believe another approach exists and to be as pragmatic as possible in finding solutions to how the market works. We are in general not convinced that a system of fines and penalties to 'incentivise' behaviour is always necessarily the right approach and prefer to turn to approaches where wholesalers and retailers can pool their respective capabilities and geographical presence to solve market issues. This is ever more important at this difficult time for customers and market participants and welcome the invitation to comment on possible wholesaler / retailer co-operation.

In particular we would like to draw your attention to proposed code change CPW067. We believe that used correctly this could allow wholesalers and retailers to document all their metering issues that require resolution and address many of the location and other problems that pre-date market opening. Provided that meters on that list are exempted from MPS charges it gives the market participants, and particularly the wholesalers, time to address the various issues associated with their metering assets and ensure that the data associated with those assets are properly described within the CMOS database. With GPS technology, identifying and finding the location of an external meter should be a simple and efficient process.

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?

The consultation identifies that of the retailers that have used the scheme the vast majority have made voluntary payments and that the scheme is not being fully utilised as it stands. It appears that it would be illogical to extend the scheme further if the current scheme is not being fully utilised. Therefore, we agree with Option 1 that no further deferrals are necessary and any March to July payment deferrals made to date are to be paid by March 2021.

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 do not believe Option 2 is necessary.

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 do not believe Option 2 is necessary.

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?

Given the degree of repayment that has already occurred as part of the deferral scheme we believe that option 1 is the best option as the deferral scheme utilisation appears to be reducing without any need for a prescribed repayment plan. We cannot see why any one of the options provides a better outcome for customers than any other.

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, as the evidence of repayment to date suggests that those levels should be reached anyway.

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 believe that if a customer was to be affected by Covid then retailers should have discovered that by the end of July 2020. Therefore, in general we think that the option to apply a Covid vacant flag should expire on 31 July 2020. The caveat to that is what happens when there are local lockdowns or the Government determines that certain sectors need to re-enter lockdown. The rationale for temporary vacant markers is then exactly the same as when they were used the first time. Our view is that we can support the objective of question 6 save for the ability to continue to use them if 'new' lockdowns or restrictions occur.

It is however worth adding a point around premises that may not re-open following Covid 19. Where we are seeing some customers entering into administration the ability to gather any information is going to be difficult. Currently we are able to amend CMOS to Show "COVID-19 Ceased Trading" which is the Covid status as stated in the latest CPW091. It would be worthwhile clarifying if this should continue. We believe it should as it will provide useful data to see how much consumption has been lost from the market, and how much fixed cost will no longer be available to retailers to collect. This is especially important when there is contemplation of charging retailers for vacant premises; the number may have increased significantly due to Covid.

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.

The ideal situation is that we can obtain meter reads. It may however be difficult to achieve for a variety of reasons in the accelerated timetables that appear elsewhere in the consultation. Making a heroic assumption that meter reading capacity is back to where it was prior to the pandemic, meter reading still largely operates on six monthly cycles meaning that, assuming a reading can be obtained, that large parts of the portfolio will not be due a read until late autumn 2020. Also, if customers are in a local lockdown, reading internal meters becomes impossible, as meter readers are denied entry to premises that are generally shut. Once an area is out of lockdown then it may take up to six months to get a read depending where that site is on a cyclic meter read schedule.

We are therefore left with as an only option, that customers provide reads. This is something we attempted to source from customers when we communicated with them about their Covid Vacancy status. Of the sites we made Covid vacant only [redacted]% could provide us with a read. As customers return to normality, we do not see that statistic improving as customers are likely to be dealing with a whole host of factors to make their premises safe for customers and staff and frankly are unlikely to see providing a meter read for their water as a priority.

This is also true about engaging customers in a conversation about their likely consumption to help set a YVE. We have already engaged with customers to determine what levels of consumption they envisage post lockdown and the universal answer is they don't know as they have little idea of the level of demand they will see. The notion of an 'accurate estimate' of consumption is an ideal that is very difficult to achieve.

It also feels like a more accurate description of business sentiment than the tone within the consultation document which appeared to suggest we are close to returning to normal. 86% of businesses may have reported that continued to trade, but how many of them were anywhere near their previous levels of activity? If we do not capture this element, we risk over estimating consumption.

With many customers, simply getting a conversation will be difficult as we have already stated, we are unlikely to be a priority. Therefore, we can of course agree with the premise of the question as it is logical and an outcome we would want. However, we can only caution against what appears to be the subtext to the question that this is straightforward and that retailers are not doing it because of various unclear reasons. It is commonly recognised that the lack of capacity and technology to deliver frequent accurate reads is the biggest flaw in the way the market has been built. Given that is true pre-Covid, it is of course especially true now.

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 believe that a date needs to be set for the removal of flags. However, we believe September 2020 is too early for the reasons we made in Question 7. Most meter reading cycles are 6 monthly and to ensure that removing customers from Covid vacant are accompanied by a meter read to align wholesale charges to billing, we think retailers need the best chance of getting a read which as explained above would be from a meter reader not a customer. As an alternative and taking in to account the 6 monthly meter reading cycles, we suggest that 50% of all sites made COVID vacant as of 31 July 2020 are removed from that status by 31 October 2020 and the remainder by 31 January 2021. This allows retailers the best chance to obtain reads. This of course is subject to our answer above which wishes to retain the ability to apply Covid-vacant flags when there is a local lockdown.

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.

The question is built on the premise that everything will be back to normal by October and that the continued use of temporary vacancy flags is unwarranted. There are many arguments that suggest that this premise may be premature and reducing the discussion to one of 'motivation' and 'incentive' appears to ignore the very real practicalities customers and their retailers are going through to assist customers through this difficult period. The market is already very complex and already has many mechanisms to drive performance and quality and adding another one will simply add to the complexity and absorb more bandwidth to deal with it. Our goal at present is for the market to find ways to adapt to the new reality as it emerges. As we explained in the answer to question 8, we believe all markers should be removed in time. If that is not achieved by those dates then we would prefer simpler remedies such as the automatic removal of the flag which is done in conjunction with the local wholesaler obtaining a meter read if the retailer has not been able to. This returns the site back to a normal market status where the wholesaler can also verify the occupancy status if that business has not made it through the pandemic, as many will not.

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

This is of course a question that can be asked at any time as it speaks to the core issue in the market, the lack of consistent, accurate and timely consumption data. Therefore, we see it going beyond the Covid issue. We still believe that obtaining meter reads is still the best way to solve this, but rather than imposing yet more penalties we suggest an alternative. As the consultation suggests some wholesalers offer local meter reading services, but not all, and not in any particularly flexible way. Is the easier answer for each wholesaler to have a 'meter reader of last resort' offer which means if a retailer cannot get a read, they can request one, at a price equal to the current MPS fine level, from the local wholesaler. This means we can always get timely reads and avoid the whole YVE issue. It also means real issues that are a hangover of when the market started such as the inability to find meters or flooded meter pits can be resolved by wholesalers more quickly than they are at present. We understand that the MPS framework was set up to drive behaviours but the consultation asks for where wholesalers and retailers can work better together and this is the obvious one as it builds on current capabilities and benefits wholesalers, retailers and of course the customer.

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?

Assuming we take this approach, we would immediately hit a number of obstacles. The consequences of Covid are likely to be varied. It means that although we could apply industry codes to determine what consumption could be, how do we know that customers are still consuming what they used to? Also, how do you identify what is too low if customers themselves cannot be sure what their demand will be. We think the problem is being approached from an assumption that we cannot improve the frequency and quality of meter reading when we believe that is possible and why we welcome Question 12.

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?

As has been mentioned above we believe that wholesalers are in a strong position to assist with the quantity and quality of meter reads. It is commonly accepted that the market did not get off to the strongest start in terms of data quality. However, this situation was exacerbated by the absence of a direction to wholesalers to offer meter reading services at fair rates with flexible conditions. Many of the issues that were seen after the market started could have been mitigated if there was a 'meter reader of last resort' service. It is in everybody's interests to get reads, including wholesalers, who can use them to manage their network and spot leaks early. It is therefore sensible given their already existing capacity and local presence for them to fill in where the market is not delivering yet. The lack of competitive meter reading options has raised costs for retailers compared to what they had before competition; this cannot make sense. Therefore, we believe the time is right for Wholesalers to provide back-up meter reading services where they are paid the equivalent of whatever the fine for MPS would be. If a fine is to be paid then it makes sense that a read is also procured with those funds.

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 agree with the expectations as set out, but they are high level and the detail is important

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 believe that it would be best to pause the evaluation of this. The consultation notes that the delivery of meter reading standards may not be entirely in the control of Retailers, and also questions whether meter reading capacity will return to normal levels in the following months. We agree with these observations and would also add that we as yet do not know how customers will react to the new 'normal'. For instance, will customers who have internal meters allow entry to read them? This is a common reason for reads not being taken at the best of times but there is the possibility that it becomes more widespread where premises are under instruction not to allow anyone deemed 'non-essential' on to the premises even if illogically they may have customers on site. It does not take a high percentage of internal reads to not be taken to impact MPS scores. No level of 'incentive' can overcome such barriers. Ideally, we could evaluate the behaviour of customers with internal meters over the next two months and then assess how we might re-impose the MPS framework.

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

We believe where the re-commencement of OPS charges can assist retailers in improving data quality and market performance then they should be 'turned on' ahead of MPS charges.

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 these can be done before the meter reading charges as they are more about portfolio administration and may not involve meter reading.

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 would suggest an alternative where credit support arrangements would be based on the P1 for all non-COVID sites as normal and for COVID sites to use the April P1. This we think is a compromise that protects wholesalers when the consumption from Covid customers returns but better reflects what the customer base for each retailer is doing in general. This does not remove the incentive to remove Covid status from customers. Also, as we suggested above, if this removal is automatic then it will naturally return to the P1 value anyway.

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 agree.

We hope you find these comments constructive and look forward to reviewing any changes that are proposed. If in the meantime you have any questions please do not hesitate to ask

Yours Sincerely

[redacted]

Giuseppe Di Vita
Managing Director, SES Business Water