

Our Ref: [REDACTED]

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By email

For the attention of Rachel Fletcher, Chief Executive

Dear Rachel

### **Covid-19 and the business retail market: consultation on next steps**

Many thanks for the opportunity to comment on the business retail market consultation dated 9 July 2020.

As a Board and Company, we continue to be guided by the core principal of protecting our customers – both household and business – in this time of crisis. Our response to this consultation is guided by this same customer-oriented focus and we will continue to work with Ofwat, MOSL and Water UK to ensure the support of this market.

I appreciate Ofwat revisiting the arrangements to deal with the issues in the business retail market in the light of the recent easing of government-imposed restrictions associated with Covid-19. Ofwat's consultation is timely as businesses start to reopen for trading. Wholesalers, Retailers and regulators have a key role to play in ensuring that the business retail market can return swiftly to normal operating conditions as soon as possible.

We believe that many of the interventions previously implemented by Ofwat to stabilise the business retail market are now ready to be revisited to support the transition of this market to normal operating conditions. In particular we consider that:

- Liquidity support for Retailers (in terms of the ability to defer wholesale charges) should end – as planned – on 31 July 2020.
- Repayment of deferred charges should fully complete by 31 March 2021 as originally planned. However, we support allowing Retailers and Wholesalers to agree bilateral arrangements for repayment of wholesale charges, with Ofwat's proposed backstop repayment profile in the absence of such arrangements being an effective compromise.

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- The option for Retailers to use the temporary vacancy flag should be allowed to expire on 31 July 2020, and its use ceased from 30 September 2020.
- Retailers should try to obtain meter reads that accurately reflect actual consumption, and proactively engage their customers to obtain such reads.
- The introduction of Market Performance Charges should commence from the end of October 2020 to provide more time to ensure that the relevant data, such as meter reads, are appropriately entered into CMOS.
- Maintenance of the credit support requirements at March 2020 levels until all the temporary vacancy flags are removed from the CMOS system.

While we are in overall agreement with the proposals Ofwat has articulated in the consultation, we still remain concerned and focused as a Board and Company on the potential bad debt exposure for Wholesalers and Retailers that may exist under the recent code changes. We note Ofwat's proposals for further consultation on Retailer bad debt, and agree on the need to continue to focus on this key area of concern.

We have also included in this letter responses to the questions asked by Ofwat on behalf of the industry Codes Panel in reference the potential code changes to reduce the credit support requirements for Retailers who have not deferred any of their wholesale charges.

As always, please contact me with any questions or for clarifications.

Yours sincerely



Ian Cain  
Group Chief Executive Officer  
SES Water

**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 agree that no extension of liquidity support should be provided to Retailers beyond July 2020 (Option 1), which would prevent Retailers deferring primary charges due from August 2020 onwards. We believe that, as indicated in the data provided by Ofwat, the majority of Retailers have been able to repay substantive portions of the previously deferred charges, and – with the nationwide Covid-19 restrictions starting to be alleviated – there will be an increased ability for Retailers to continue to pay monies due. We believe this option is the most compatible for all customers' interests and helps mitigate the ongoing liquidity burden on Wholesalers who are focused on remobilising operations to serve all customers.

**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 would support reducing the capped amount of liquidity support to 25%, based on our views above of that the liquidity burden on Wholesalers should be reduced as the nationwide Covid-19 restrictions are lifted.

**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 to be implemented, we would not support allowing Retailers to opt into the schedule up until October 2020. While we are aware that this proposed extension could provide some Retailers further time to explore financing and Government Support options, such options have been available and considered by Retailers in the last several months, with no significant uptake as noted in Ofwat's consultation. We do not believe extending this time period will result in a rapid uptake of these options, and would only serve to increase market uncertainty and continue to apply liquidity pressure on Wholesalers.

**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 believe that the backstop proposed by Ofwat under Option 3 provides the most effective means for unwinding the liquidity support currently being provided to Retailers. There is a need for a specific repayment profile to exist, but it would be difficult for solely Ofwat to clearly set this profile in an equitable manner for all parties. Therefore, allowing Retailers and Wholesalers to agree bilateral arrangements for repayment of wholesale charges, whilst providing a backstop repayment profile in the absence of such arrangements, is an effective compromise. With full

repayment remaining at 31 March 2021, we are supportive of publishing bespoke repayment profiles between Wholesalers and Retailers on MOSL's website. We also agree that an explanation should be provided if Wholesalers agree different repayment profiles for different Retailers. The latter would ensure that objectivity is maintained when dealing with arrangements between parties in the same corporate group. We believe the above proposal is in the best interests of customers and allows for transparency in the market of such arrangements.

**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, under Option 3, that 33% of deferred wholesale charges should be repaid by the end of November 2020 and that 66% should be repaid by the end of January 2021. These are reasonable "check-in" points prior to March 2021, and allow sufficient time to take corrective action if needed prior to 31 March 2021. We acknowledge that any agreement made bilaterally between Trading Parties would supersede the backstop repayment 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 agree that the option for Retailers to use the temporary vacancy flag should be allowed to expire on 31 July 2020. This mechanism has proved to be a relatively effective tool, rapidly deployed, to ensure that customers were more accurately billed where reduced levels of consumption were due to temporary business closures as a result of Covid-19. However, with the nationwide easing of restrictions, we believe that this measure has fulfilled its purpose, and that any further use this tool would be at odds with the number of business customers now recommencing trade. However, the lifting of this flag must be accompanied by a significant and concerted effort from Retailers to engage with customers to ensure meter reads are submitted on a timely basis. In addition, there requires to be carefully monitoring of any removal of temporary vacancy flags where the premises are then marked as vacant under the original code criteria.

**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 that in all events, including those articulated above, all Retailers should try to obtain meters read that accurately reflect actual consumption, and proactively engage with their customers to obtain such reads. However, we do understand that it may take some time move to this level of specific meter reading, and therefore Retailers will need apply appropriate adjustments to the Yearly Volume Estimates (YVE) to estimate such meter reads. Detailed evidence should be retained by Retailers to support their use of YVEs, and collaboration between Wholesalers and Retailers should be actively encouraged in terms of data sharing to improve this process.

**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 agree that the end of September (i.e. 30 September 2020) is an appropriate timeframe for Retailers to remove these temporary vacancy flags from the Central Market Operating System (CMOS).

**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 agree that a new Market Performance Standard (MPS) should be introduced from 1 October 2020 to focus Retailers on the timely removal of all temporary vacancy flags but, given the ongoing financial pressure that all parties in the market continue to face, we believe that such a MPS should be reputational only, and not financial in nature.

**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**

We agree that there should be an incentive to submit more accurate consumption data, and therefore would support a reputational Alternative Performance Indicators (API) incentive on YVEs, as opposed to any type of financial MPS for reasons similar to those noted in the response to question 9 above. We are supportive of the recommendation for Ofwat to work closely with MOSL to publish league tables to compare the proportion of temporary vacant premises that are switched to vacant properties for each Retailer.

**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?**

We do not recommend introducing a financial incentive on YVEs given the going financial pressure and uncertainty across the entire market. If a reputational incentive on the use of YVEs were introduced, in addition to publishing data related to Retailers' use of these YVEs, the incentive could be strengthened through the use of targeted third-party audits on any Retailers whose YVE data appears to be an outlier across the market.

**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 do not believe that any specific measures should be introduced to financially or reputationally incentivise Wholesalers to work constructively with Retailers. Such constructive support has

already been provided in terms of the liquidity support from Wholesalers in recent months, and the proposed reputational measures noted by Ofwat, particularly the publishing of data that would detail any potential anomalies from transferring from the temporary vacancy flag, should be sufficient incentives for all parties to ensure the accuracy of data in CMOS.

**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 noted by Ofwat when unwinding the temporary vacancy flag. It is important that all parties, and primarily customers, are provided with clarity on the expectations for the unwinding of the temporary vacancy flag. In particular, it is vital that all Retailers retain a transparent audit trail for customer sites that have used a temporary vacancy flag and – as the unwinding process is undertaken – the communication from Retailers to customers must be sufficient to ensure that all customers understand the changes being implemented and the potential impact on their bills. We recognise that there may be marginal cases where the temporary vacancy flag was potentially applied incorrectly originally – although in good faith at the time. In such cases, we consider that further guidance should be provided to Retailers in terms of handling and potentially backdating the associated charges.

**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 support the introduction of Market Performance Charges from the end of October 2020. This would provide more time to ensure that the relevant data, such as meter reads, are appropriately entered into CMOS, which will be more beneficial for customers in the longer term.

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

We believe that Operational Performance Standard (OPS) charges should be introduced at the same time as the MPS charges, again to allow time for the market to return to normal operating conditions.

**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.**

Again, we believe the such non meter reading Market Performance Framework (MPF) charges should be introduced in line with the meter reading MPF charges above to allow time for the market to return to normal operating conditions.

**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 support the maintenance of the credit support requirements at March 2020 levels until all the temporary vacancy flags are “switched off”, albeit Ofwat should provide clarity on what is meant by “switched off” – we are assuming that this means that all Retailers’ temporary vacancy flags are removed from the CMOS system. Maintenance of this level of credit support until such times as the temporary vacancy flags are removed from CMOS will prevent any short-term credit issues for Retailers as they transition into normal billing and collection levels.

**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 that the Customer Protection Code of Practice (CPCoP) does not require amendment in light of the proposals set out in Ofwat’s consultation. Retailers should still ensure that they have the appropriate tools to place to manage customers’ debt appropriately, but the requirement for Retailers to assess individual customers circumstances and agreed timelines for repayment under the Covid-19 Repayment Scheme should provide sufficient protection to customers without the need to change CPCoP.

Questions asked on behalf of the Panel, as input into Code change CPW100

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]

A2. What assumptions are you making about the level and speed of return of NHH water consumption?

[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]

[REDACTED]	[REDACTED]					[REDACTED]
[REDACTED]						
[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]