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Covid Business Retail Market,
Centre City Tower,
7 Hill Street,
Birmingham,
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By email to: covidbusinessretailmarket@ofwat.gov.uk

16 July 2020

Dear Sir,

South Staffs Water response to Covid-19 and business retail market next steps

Thank you for the opportunity to respond to the above consultation.

Our responses are set out on the following pages. This also includes our views on the code change CPW100.

Let me know if you have any questions.

Yours faithfully,

[redacted]

Philip Saynor,
Director of Regulation
South Staffordshire Water PLC

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 support option two but with a lower percentage deferral of 30%, essentially capping it at the level of the retailer with the highest deferral rate at the end of June. We think that this strikes the right balance between supporting liquidity in the market and sending the right signal to retailers that alternative forms of financing should be explored and put in place as soon as possible.

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.

Please see answer to question 1 where we support a reduction to 30%.

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.

From a level playing field perspective, we think that the scheme would have to remain open to all retailers.

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 support option 3 as it allows wholesalers to agree tailored approaches to each retailer, recognising that one size does not fit all, but with a backstop to provide confidence to the market that all deferred charges will be repaid by the 31 March 2021.

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.

Yes, we agree.

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.

Yes, we agree that the temporary vacancy flags should be allowed to expire on the 31 July 2020 as the most of the economy will be open by that date.

Q7 suggests for local lockdowns retailers should seek reads or engage with customers to estimate YVE's. If local lockdowns are widespread it should be made as simple as possible and allowed through the temporary vacancy flag.

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 in principal to this approach, although we think there should be more emphasis on customers reads.

There are c250k properties marked as Covid vacant and we recognise that to obtain meter reads for all these properties could take longer than two months when the expiration of the temporary vacancy flag comes into effect.

Therefore, we think that customers should be encouraged to supply their own meter readings as soon as possible and in advance of a scheduled meter read, recognising it is in their own interest to receive an accurate bill.

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.

Yes, we agree. Although this date could be moved back to recognise that large number of premises to be verified, our suggestion to use more customer reads should allow retailers to remove the temporary vacancy flag by the end of September.

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 not convinced that applying penalties to retailers if temporary vacancy flags have not been removed is the correct approach. It could lead to arbitrary updates being made using poor data in order to avoid a penalty. This could cause problems for customers in the longer run.

We think that where retailers still have outstanding temporary vacancy flags at the end of September, the retailer's Board should be required to report to MOSL on the reasons why and set out a rectification plan to remove them as soon as possible.

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

Although there is some merit in an MPS on YVEs the difficulty is how this is monitored to identify those that are inaccurate.

We think an alternative approach would be to set out a timescale when all YVEs have to be replaced by an actual meter reading. This removes the issue of assessing which YVEs have been set too low.

There is no data in the consultation setting out how many premises have had a YVE applied so it is difficult to know what would be a reasonable timescale for all of them to be read. A reasonable expectation might be by the end of December.

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?

Please see our answer to question 10.

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 think that where retailers want help in unwinding the temporary vacancy flag, then they should engage with wholesalers on how this can be supported. We think it would be better for this be done on a bilateral basis rather than through market incentives.

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?

Yes, we agree.

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 think that the charges can be introduced from the end of September but taking a flexible approach in the light of possible local lockdowns or a second wave. It may be necessary to suspend charges for certain retailers and wholesalers over future months.

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

We think that OPS charges should be introduced at the same time as MPS charges. We think this ensures a fair approach to both wholesalers and retailers performance.

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.

As set out in our answer to question 15, we think that all market charges should be re-introduced at the same time.

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 option 2 as it provides a further incentive for retailers to remove all temporary vacancy flags.

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.

Responses to Appendix 1 – 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]

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]

[redacted]