

Date: 16 July 2020

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By e-mail: [covidbusinessretailmarket@ofwat.gov.uk](mailto:covidbusinessretailmarket@ofwat.gov.uk)

Dear Georgina and Dan,

### **COVID-19 AND THE BUSINESS RETAIL MARKET – CONSULTATION ON NEXT STEPS**

Thank you for your email dated 9 July 2020, informing us of the consultation Ofwat recently published which focuses on proposals on next steps in the business retail market. We welcome the opportunity to respond to the consultation.

Appendices 1 and 2 contain our responses to the specific questions raised in the consultation. We request that our response to Appendix 1 and to consultation question 17 in Appendix 2 are treated as confidential and are therefore only shared with the Industry Codes Panel.

If you should have further questions please do not hesitate to contact me.

Yours sincerely



**Sally Mills**  
**Regulatory Director**

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**APPENDIX 1: QUESTIONS ASKED ON BEHALF OF THE PANEL, AS INPUT INTO CODE CHANGE CPW100**

**PLEASE TREAT OUR RESPONSE TO APPENDIX 1 AS CONFIDENTIAL**

**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?**

Considering how volatile and unpredictable the current situation is SWW, is not able to accurately predict when and how the level of the consumption will return to pre Covid-19 market. We expect that some businesses will initially have much lower consumption and other won't be able to reopen at all and cease trading.

**A3. Please explain the makeup of your credit support and levels of Unsecured Credit Allowances in the pro-forma on the following page.**

This table is marked to be completed by retailers and therefore has not been completed.

**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.**

From a wholesale point of view SWW adjusts credit support requirements in c.10% of cases per month. However, this does not incur significant costs.

## APPENDIX 2: FULL LIST OF CONSULTATION QUESTIONS

**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?**

SWW supports option 1 as we believe that sufficient time has now passed for retailers to access adequate funds and other methods of support. In addition, only 4 retailers are currently deferring balances and the amounts concerned are significantly lower than the maximum allowed in each case. SWW believes that steps to return the market to normal operating conditions as soon as practically possible is in the best interest of customers, retailers and wholesalers.

**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.**

SWW supports a reduction in the cap to 25% which is based on the current levels of retailer deferral experiences in our region. SWW's view is that since the national lockdown was implemented retailers have had a time to access additional financing and consider other government support.

**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.**

SWW proposes that retailers must opt in to the scheme in advance and not be able to opt in during the period to October 2020. SWW supports the use of the cap as described and would recommend adjusting schedule R6 so retailers can report on the maximum cap allowed.

**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?**

SWW supports option three, a hybrid of option one and two. This option will ensure that when no repayment agreement between parties is made there is an adequate back stop.

**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.**

SWW has no objection to the proposed 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.**

SWW agrees that the temporary vacancy flag option should expire on 31 July 2020 following the nationwide easing of restrictions and government plans to reopen all businesses and venues by the end of July. The temporary vacancy flag was put in place to reflect the reduced level of

consumption due to Covid-19 pandemic and extending this feature further would not be fit for its purpose.

**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**

SWW agrees that in the event of reduced consumption resulting from local restrictions the up to date meter read should be obtained to ensure accuracy of CMOS data. If the read cannot be obtained the yearly volume estimate (YVE) should be updated following the contact with the customer to determine the accurate level of consumption and such evidence should be retained for an audit trail.

We also agree that retrospective status changes should be applied if there is evidence that the vacant flag was used in error.

**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 that the deadline for updating the temporary vacancy flag from CMOS should be extended by additional 2 months until the end of September. The process of obtaining vacancy information followed by submission of actual meter readings and possible YVE change will be time consuming and will require effort from both retailers and the wholesalers. In our view, the proposed end of September deadline is sufficient to review and remove all temporary vacant flags.

**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.**

SWW agrees that a new MPS relating to the removal of all temporary vacancy flags should be introduced from 1 October after the deadline for removing them from CMOS. We believe that this should be reflective of the standard design for MPS measures with definitive SLAs.

**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**

To avoid submission of inaccurate consumption data into CMOS SWW supports an additional MPS relating to the accuracy of consumption data used with temporary vacancy flags.

**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?**

SWW does not believe additional incentives are required.

**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 a responsible wholesaler we will always strive to work collaboratively and constructively with retailers and therefore believe not additional incentives are 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?**

SWW agrees with the expectations towards retailers and wholesalers through the unwinding of the temporary vacant flag.

**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.**

SWW believes that Market Performance Charges should come back into effect from October 2020 at the earliest. The Covid-19 situation, though improving, is still volatile and so any decision regarding a return to normal should be considered in line with the latest government guidelines.

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

SWW believes that to be fair to all parties, introduction on OPS and MPS charges should be introduced at the same time.

**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.**

For simplicity we believe non meter reading and meter reading MPF should be 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?**

**PLEASE TREAT OUR RESPONSE TO QUESTION 17 AS CONFIDENTIAL**

SWW supports option 2 to maintain credit support requirement at March 2020 level until all the temporary vacant flags are switched off. This will ensure that the level of security is maintained until such time when the premises temporary closed due to national lockdown are correctly marked as occupied in CMOS and record increased consumption. This approach will avoid huge variances in security levels required by the wholesalers.

**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.**

SWW agrees with the above.