

28 January 2021

## **Covid-19 and the impact on the business retail market**

This statement sets out Ofwat and MOSL's planned regulatory response to the ongoing restrictions in relation to the business retail market. It includes our decision to extend the suspension of some charges under the Market Performance Framework and provides an update on our plans to expedite decision making in relation to customer bad debt arising as a result of Covid-19. It also provides a link to our updated website, which includes some useful information for customers.

As always, our focus continues to be that business customers are protected as appropriate – including from the risk of systemic retailer failure. Where business customers are able to pay their water and waste water bills, they should continue to do so. It is important that customers and their Retailers engage with each other to ensure that bills are as accurate as possible, for example by customers submitting meter reads to support this.

### **Customer protection**

Under the Customer Protection Code of Practice (CPCoP), Retailers continue to be required to offer customers who are affected by Covid-19 with a Covid-19 Repayment Plan, tailored to the individual needs of the affected customer. In December 2020, we further [strengthened the protections for customers](#) by clarifying the expectations of retailers in terms of promoting and signing up customers to Covid-19 repayment schemes where appropriate. These changes aim to ensure that Retailers take reasonable steps to maintain contact with customers on Covid-19 repayment schemes to understand their circumstances and tailor their plans before any kind of debt collection action (including the use of debt collection agents, interest, late payment fees, disconnection) is pursued. Whilst Retailers still have these tools at their disposal, they must ensure that they meet the requirements of the CPCoP before utilising them. We are working closely with CCW to monitor Retailers' activity in this area.

### **Temporary vacancy flag**

Between March and July 2020, Retailers were able to mark premises as 'temporary vacant' to reflect the sudden and unexpected reduced level of consumption at business premises and help ensure that customer bills more accurately reflected this reduced consumption. In our [November Statement](#) we were clear that we did not intend to reintroduce the use of the temporary vacancy flag. Instead, we said that where Retailers cannot obtain meter reads to reflect actual consumption they should engage with the customer (where possible) and

Wholesalers to obtain an accurate estimate of consumption, including by using Yearly Volume Estimates<sup>1</sup>. MOSL will shortly be issuing updated guidance on the use of estimation for the purposes of settlement and the estimation capping effects of the Yearly Volume Estimate parameter.

We have published [information for business customers](#) on meter reading on our [website](#). Customers can take steps to support more accurate bills in cases where Retailers face challenges accessing meters and obtaining reads due to the current Covid-19 restrictions.

During this pandemic we continue to encourage Retailers and Wholesalers to work together and with their customers, where appropriate, to seek meter reads and upload them into the market. We expect Wholesalers that provide meter reading services to work constructively with Retailers to develop a strategy to ensure that, where possible, meter reads can be prioritised and fast-tracked into the Central Market Operating System.

## Market Performance Framework (MPF) Charges

In November 2020, Ofwat [confirmed](#) that the invoicing and payment of Market Performance Framework (MPF) charges (comprising both Operational Performance Standard (OPS) and Market Performance Standard (MPS)) would be further suspended until the end of December 2020. Charges would resume from 1 January 2021, with invoices to Wholesalers and Retailers commencing from February 2021. The standards themselves were not suspended and the market operator (MOSL) has continued to monitor trading party compliance, including by publishing [peer comparison league tables](#).

We have previously set an expectation that we did not intend to extend the suspension of OPS charges further. In relation to MPS charges we said *“if we experience another national lockdown we may consider a further extension of the suspension of MPS charges only”*.

We recognise that, in light of the continued restrictions resulting from Covid-19, some Retailers will continue to be impacted by business closures more than others. We know that some ‘business as usual’ activities, such as reading meters, will prove difficult as some meters are going to be inaccessible during this time. With Covid-19 restrictions likely to

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<sup>1</sup> A Yearly Volume Estimate is a value that can be adjusted by a Retailer for an individual meter. It is used to estimate consumption for the Supply Point where there is no substantive series of historic meter readings. It is also used to cap forward estimates where these are derived from historic meter reads. The settlement mechanism ensures that, over time, as meter reads are taken, estimated consumption is replaced by metered consumption and any differences are charged accordingly.

remain in place for some time, we consider that it remains unreasonable to financially penalise Trading Parties for failing to meet MPS due to factors outside of their direct control.

**We will therefore extend the suspension of MPS charges until the end of the 2020-21 financial year**, and will confirm the details in writing to MOSL shortly. We expect MPS charges to be reintroduced from 1 April 2021.

Wholesalers have continued to perform relatively well against OPS, notwithstanding Covid-19 restrictions. Wholesaler tasks under the OPS are often initiated at the request of Retailers, such as meter replacements and disconnections, and can facilitate Retailers' MPS tasks. To date, we have not seen any evidence to suggest that OPS charges should not be resumed.

**We have therefore decided that OPS charges will resume from 1 January 2021.**

## **Customer bad debt**

The Covid-19 pandemic and measures put in place to combat it have significantly affected the business retail market as well as the wider economy. For example, the first national lockdown announced in March 2020 created immediate challenges to the ongoing operation of the business retail market – it created a sudden reduction in demand among some business customers and meant some business customers could face difficulties in paying their bills on time, potentially creating consequential cash flow issues for Retailers. A number of business customers continue to be affected by ongoing restrictions.

Costs for Retailers associated with delayed or defaulted business customer payments – i.e. customer bad debt costs – are likely to have increased if their business customers are less able or unable to pay. We confirmed that, if customer bad debt costs across the market are likely to exceed 2%<sup>2</sup> of turnover, we would provide regulatory protections for a portion (but not all) of this additional exposure.

In November 2020 we published a [Call for Inputs](#) (CFI) seeking views on our approach to assessing whether and how revisions to regulatory protections may be warranted in the business retail market in respect of risks of elevated customer bad debt resulting from the effects of the Covid-19 pandemic. Following receipt of CFI responses on 22 January and in response to calls from Retailers that earlier certainty on some aspects of our decisions are essential for planning purposes, we now plan to consult on our preferred options in relation

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<sup>2</sup> In the business retail market, Retailers on average have seen historical bad debt costs at around 1% of their turnover.

to: the mechanism; timing of recovery; and sharing factors, before the end of Q1 2021. We will consult on the more detailed aspects of our decision at a later date.

## **Other sector-specific support measures – liquidity support**

As per our November Statement, the temporary support measures put in place during the spring and summer of 2020 were designed to provide Retailers with interim relief and time to access and put in place other forms of financial support, including accessing Government support schemes and alternative forms of finance. Ofwat has been clear that it expects Retailers to use the experience of previous lockdowns to develop contingency plans in preparation for further future restrictions.

**We therefore do not intend to reintroduce the sector-specific liquidity support measures put in place during 2020.**

We will continue to monitor developments in relation to restrictions put in place to combat the spread of Covid-19 and will issue further communications as necessary.

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