

Covid-19 and the Business Retail Market: Consultation on next steps

Summary

Severn Trent has worked with other wholesalers to refine an industry response to this consultation. We support the overall position adopted by Water UK and therefore we limit this response to aspects of the consultation that Water UK has not covered.

In March and April, retailers faced an extremely uncertain position due to widespread and sudden closures within their customer base. There was a danger that the retail market might have collapsed due to retail failures. Along with other wholesalers, we recognised that we needed to provide some emergency support to protect the customer interest.

The position is now different. While some uncertainty remains, the economy is progressively reopening as lockdown rules are relaxed. In line with Government guidance, many non-household customers have resumed operating, and have made announcements to that effect. Retailers have had time to look at options for alternative funding, remembering that wholesaler liquidity was only ever seen as a fall back, rather than a first resort.

We support the consultation's aim to restore normality to market operations, with a progressive withdrawal of the emergency measures. This should be done as soon as is practical, without disrupting the market and services to customers.

We will, of course, work constructively with retailers to help them unwind the changes, particularly temporary vacancy flags. The chief way in which we can do this is by sharing information on non-household usage and occupancy where we have it. When we do so, we think there should be an obligation for retailers to act on that information in a timely fashion. There should also be very clear expectations for retailers to remove vacancy flags sooner than the deadline if they have clear information that premises have resumed normal operations, such as public statements from pub and restaurant chains which have reopened.

The section below deals with the questions from the appendix to the consultation that are not covered by the Water UK response.

Appendix 1 Questions

What are the benefits and risks associated with implementing different credit support requirements for Retailers who have and have not deferred wholesale charges?

In our view, the purpose of code change CPW095 was to mitigate risks from the combined measures that were being taken to support retailers at that time: the use of the temporary vacancy flag; revised (lower) Yearly Volume Estimates; and deferred payments. The wording of CPW100 implies that CPW095 was only intended to deal with the issues created by the last of these measures, which we do not think is the case.

While there would be a clear benefit to retailers from a lowering of the requirement, we would highlight that almost all retailers are benefiting from reduced wholesale charges as a result of temporary vacancy flags. There are many instances where premises have been flagged as vacant because a business has stopped normal operations, but consumption has continued (for example, where there is a flat or other domestic use at a business that has been closed during the lockdown).

We would support a change to credit support arrangements for retailers that have removed all temporary vacancy flags, and which have repaid any deferred payments. Once this has occurred, it should be possible to base the credit support on a normal level of wholesale charges. If the arrangements are based on a period when a large number of properties were flagged vacant, the value of guarantees will be distorted and will not reflect the level of credit risk that wholesalers are being required to bear now that non-households are reopening.

As Ofwat note, lowering the credit support provides an incentive for retailers to remove the temporary flags and get meter readings into the market. This will also be in customers' interests as it will drive more accurate charging.

What assumptions are you making about the level and speed of return of NHH water consumption? Please explain the makeup of your credit support and levels of Unsecured Credit Allowances in the proforma on the following page.

We assume that non-household consumption will return to something like normal over the summer and autumn as Covid-19 measures are eased. However, we think it is very likely that it will remain lower than previous projections at least into the next charging year (2021-22) because some businesses will not return, and others will reduce production or fail when Government support measures are withdrawn.

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.

Credit Support Notices (CSNs) are calculated and issued monthly, in line with market code requirements. The requirement to maintain credit at March levels led to a change in the CSN template and process, but once established the costs associated with generating CSNs are broadly the same as before the Covid changes.