

Date: 27 March 2020
Our Ref: AS-LP-27-Mar-2020

Dear Licensed Provider:

COVID-19 Measures in support of non-household customers

In response to the economic impact of the COVID-19 pandemic, the Scottish Government announced on 19 March 2020 measures in support of non-household customers.

The Commission is aware of the economic impact that the COVID-19 outbreak is having on non-household customers and fully supports the measures announced by Scottish Government. These measures temporarily relax, from 1 April 2020, the two-month wholesale pre-payments due by licensed providers to Scottish Water for wholesale services. Scottish Water has also committed to suspend any late payment interest charged on licensed providers whilst continuing to pay interest on any prepaid balance.

The Commission believes that these measures provide licensed providers with the necessary flexibility to manage their cash flow position and to take pro-active measures in support of non-household businesses at these difficult times. In line with the principles of Ethical Business Practice, the Commission expects all licensed providers to pass on all of these cash flow benefits to their customers and maintain the trust and confidence of customers and stakeholders in the market. It will be critical for customer confidence that there is clear and demonstrable evidence that licenced providers have supported them through the current crisis.

As a further support measure for businesses, while the relaxation of the wholesale prepayments remains in force, the Commission expects licensed providers to take no prepayments from any customer.

The Commission is seeking your full support with implementing these measures and will be monitoring the effectiveness of the implementation and licensed providers' behaviours. If it proves necessary, the Commission will consider taking appropriate

further steps in support of Scottish Government's objective to protect non-household customers in Scotland.

Information request regarding customers' prepayments

In line with its primary duty to promote the interest of customers the Commission has also reviewed the risks to customers who prepay their licensed provider. As explained throughout its ongoing Review of the retail market framework, the Commission believes that customers who have made prepayments to their licensed provider are at a significantly higher degree of risk of losing money in the event that their licensed provider becomes insolvent.

The Commission is, therefore, seeking further information to understand the extent of the customer prepayments that are being held by licensed providers. To this end, the Commission is issuing an information request to all general licensed providers to provide the following information:

- The different categories of prepayment terms that have been offered to customers (e.g. monthly, quarterly, annual prepayment, deposits etc.) and an explanation of any specific ad-hoc arrangement (e.g. public sector contract customers);
- Total payments collected by the licensed provider in each month over the last 12 months (ie from 1 April 2019 to 31 March 2020);
- The total prepayments collected each month over the last 12 months; and
- The total cash prepayment balances held in each month by the licensed provider during the last 12 months.

In order to ensure consistency of licensed providers' data the Commission has provided an excel template in the appendix to this letter. All general licensed providers are required to complete this template and provide any additional information by no later than Friday 17 April 2020. The Commission is mindful of the short deadline but given the extraordinary circumstances it is important that all licensed providers provide a complete, accurate and timely information return. This will ensure that any further action that the Commission may consider taking is appropriately targeted and proportionate.

Given the confidential nature of this information the Commission will not be publishing individual licensed provider's information.

Other measures in support of non-household customers

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The Commission has reviewed the Provider of Last Resort (POLR) arrangements to ensure that all consumers are appropriately protected if a licensed provider enters financial difficulty and becomes insolvent.

In line with its statutory duty to promote the interest of customers, the Commission wants to ensure that, given the impact of the current crisis, all licensed providers who opted in to POLR remain in a position where they are able to take on new customers without incurring financial distress. It is important that, in the event of a licensed provider's failure, the POLR reallocation process does not then cause further market disruption.

In light of this objective the Commission notes that the Market Code currently requires licensed providers with more than 20% of market share to take part in POLR. Given the increased financial pressure on licensed providers, the Commission believes it is prudent to revise this requirement. The Commission is, therefore, proposing to allow licensed providers who have opted in to POLR for the financial year 2020-21 and hold less than 35% of market share to have the ability to opt out. Licensed providers who decide to opt out of POLR should inform the CMA by 10 April 2020.

The Commission will continue to monitor the market and will be working closely with the Scottish Government, the CMA, Scottish Water and licensed providers on the implementation of these measures.

If you have any further questions in relation to the information requirements set out in this letter or have any further questions, please do not hesitate to contact me.

Yours sincerely,



Alan D A Sutherland
Chief Executive

cc: Scottish Government, Central Market Agency, Scottish Water