

## COVID-19 Measures in Support of Non-household customers - Additions to the Wholesale Deferral Scheme

June 2020

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The ongoing coronavirus (COVID-19) outbreak has presented unprecedented challenges to businesses and the wider economy in Scotland. Mindful of its statutory duties to promote the interests of customers, the Commission has consulted on and introduced two Charges Relief Schemes to help businesses facing difficulties with water and sewerage charges during this challenging time.

This document updates stakeholders on some further refinements to one of the two charges relief schemes, the Wholesale Deferral Scheme.

This document has been sent to:

- All Licensed Providers;
- Scottish Water;
- The Central Market Agency Limited;
- The Scottish Government; and
- Citizens Advice Scotland.

This document is also available on the Commission's website: [www.watercommission.co.uk](http://www.watercommission.co.uk)

## **1. Introduction**

The Commission is committed to ensure that business and other non-household customers, many of which are facing unprecedented financial and other difficulties during this challenging time, can receive the appropriate support.

The Commission has, therefore, [consulted](#) on and introduced two Schemes that build on commitments made by Scottish Water and ensure that all affected non-household customers can be appropriately supported throughout this pandemic. These Schemes are the Prepayment Refund Scheme and the Wholesale Charge Deferral Scheme.

Scottish Water has arranged a set of workshops to discuss with licensed providers the Wholesale Charge Deferral Scheme and the process that licensed providers must follow to apply for a wholesale deferral. Following feedback from licensed providers, the Commission has made some additions to the Scheme. This document updates licensed providers and other stakeholders on these additions to the Wholesale Deferral Scheme.

## **2. Objectives of the Scheme**

It is important to set out again the key principles that underpin the Scheme:

- Businesses and other organisations impacted by the current crisis must benefit fully from the Scheme;
- Businesses and other organisations that have pre-paid their water charges should, as far as possible, be protected if a licensed provider were to fail;
- The arrangements should be sufficiently flexible that they can be adjusted or extended if required;
- There should be no cost or detriment to household customers as a result of the support that is being provided to businesses and other organisations; and
- The arrangements should be capable of being unwound in a manner that does not increase the burden on businesses and organisations when they start to recover from the crisis.

The Commission has a statutory duty to facilitate the entry of licensed providers to the non-household retail market in Scotland but, at the same time, to do no detriment to the core (wholesale) business of Scottish Water. These principles are also consistent with the Scottish Ministers' Principles of Charging for the water industry that households and non-household customers should cover their respective costs of supply.

## **3. The Wholesale Deferral Scheme**

### *The Wholesale Deferral Scheme*

Under this Scheme, licensed providers must apply, if requested by their customer, to Scottish Water for a deferral of volumetric charging for water and sewerage. Additionally, non-household premises with a 25 mm or smaller meter and non-household unmeasured premises and those premises with surface water drainage only can also require their licensed provider to apply to Scottish Water for a 60% deferral of their wholesale fixed charges (the standing meter or the unmeasured water and sewerage wholesale charges and the drainage wholesale charges). Such deferral is available from 24 March 2020.

Licensed providers may, depending on when their customers apply to participate in the Scheme, need to arrange to provide refunds or credit to their customers in respect of charges, which they have already collected.

Licensed providers will be required to pay interest to Scottish Water on the amount of deferred wholesale charges at the rate of 2.5% per annum.

In line with the Commission's aforementioned statutory duties, the Commission requires Scottish Water to be protected in the event of a licensed provider's failure. To this end, the Scheme also requires licensed providers to assign to Scottish Water legal rights to recover any deferred charges or (alternatively) offer Scottish Water a security that is (at least) equivalent to the protection provided by the legal assignment. Such a security would have to recognise the costs (both of administration and of time) that Scottish Water could incur in seeking to exercise its rights under this security.

#### *Above and beyond the Scheme*

As set out in its consultation [response](#), the Commission recognises that some licensed providers have already implemented measures in support of their customers that go 'above and beyond' the measures set out in the Wholesale Deferral Scheme and that, as a consequence, they may not want to opt in to the Wholesale Charges Deferral Scheme.

The Commission recognises, however, that no eligible non-household customer should end up worse off relative to the benefits that they could receive if their licensed provider were to opt into these Schemes. Licensed providers who do not opt in the scheme are, therefore, expected to be able to demonstrate that all their customers, adversely impacted by the current COVID-19 crisis, are receiving at least the equivalent of the full extent of the support available under the Wholesale Charges Deferral Scheme.

#### *Alternative options*

The Commission has listened carefully to licensed providers and notes that some licensed providers may not be able timeously to provide a legal assignment to Scottish Water of rights with respect to deferred charges.

The Commission wants to ensure that all customers affected by the crisis can receive the appropriate support. In light of this, the Commission has agreed with Scottish Water that it may offer licensed providers an alternative option to access the Wholesale Charges Deferral Scheme.

Under this alternative option, licensed providers will be required to start pre-paying Scottish Water for all un-deferred wholesale charges two months in advance. The Commission is concerned that Scottish Water may still be exposed to potential loss if a licensed provider were to enter financial difficulty during the duration of the Scheme. To offset this non-payment risk, licensed providers will, therefore, be required to pay 5% annual interest on the deferred amounts. This interest rate should ensure that there is no detriment to the core business of Scottish Water.

The table below summarises the implementation options available to licensed providers.

Options	What does this involve	How does the Scheme work	Wholesale payment terms
1. Assignment or security	Legal assignment of rights or provision of an equivalent security to Scottish Water.	<ul style="list-style-type: none"> <li>- Scottish Water offers a deferral of wholesale charges backdated to 24 March 2020 until the end of the Scheme.</li> <li>- Licensed providers pay an annual interest of 2.5% to Scottish Water on deferred charges.</li> </ul>	<ul style="list-style-type: none"> <li>- Relaxation of wholesale prepayments for the duration of the Scheme.</li> <li>- 1-month prepayment of all un-deferred wholesale charges starts in Oct 2020.</li> <li>- 2-month prepayment of all un-deferred wholesale charges starts in February 2021.</li> <li>- Deferred wholesale charges are gradually repaid over a 12-month period.</li> </ul>
2. Pre-payment of wholesale charges	Licensed providers pre-pay Scottish Water two-months in advance all un-deferred wholesale charges during the Scheme.	<ul style="list-style-type: none"> <li>- Wholesale charges for affected customers are deferred backdated to 24 March 2020 until the end of the Scheme.</li> <li>- Licensed providers pay annual interest of 5% to Scottish Water on deferred charges.</li> </ul>	<ul style="list-style-type: none"> <li>- 2-month prepayment of all un-deferred wholesale charges starts in July 2020.</li> <li>- Deferred wholesale charges are gradually repaid over a 12-month period.</li> </ul>
3. 'Above and beyond' the scheme	Licensed providers offer at least the same benefit to customers but do not opt into the Wholesale Charges Deferral Scheme.	<ul style="list-style-type: none"> <li>- Customers receive at least equivalent deferral in retail charges.</li> <li>- Licensed providers do not opt into the Wholesale Charges Deferral Scheme.</li> </ul>	<ul style="list-style-type: none"> <li>- Relaxation of wholesale prepayments for the duration of the Scheme.</li> <li>- 1-month prepayment of wholesale charges starts in Oct 2020.</li> <li>- 2-month prepayment of wholesale charges starts in February 2021.</li> </ul>

#### 4. Next steps

All licensed providers are required to confirm in writing to the Commission and Scottish Water what option they have selected from the abovementioned list by Monday 8 June 2020. On the basis of this, Scottish Water will, where necessary, update the Wholesale Services Agreement with each licensed provider correspondingly.

The Commission will publish the list of licensed providers who are offering the deferral on its website and on Scotland on Tap.

Any licensed provider who does not opt for one of these three options and fails to offer the appropriate support to its customers must prominently highlight on its website and write to all

potentially affected customers in plain and simple terms explaining why it has not opted into these schemes. Without prejudice to any other action which the Commission may take, the licensed provider must facilitate any customer to switch to an alternative licensed provider without any penalty or cost to the customer -irrespective of the contract that is in place. The licensed provider should draw the attention of their customers to the list of licensed providers that have opted into the schemes that will be on the Scotland On Tap website.

The Commission expects all licensed providers and Scottish Water to ensure that business customers benefit from the clear intent and provisions of the Scheme, and take immediate steps to ensure that customers are supported and protected during this difficult and unprecedented time.

The Commission will continue to work closely with licensed providers, Scottish Water and the Central Market Agency on the implementation of the Scheme to ensure that non-household customers can receive the appropriate support.