

Date: 13 November 2020

Dear Stakeholder:

Measures in support of the retail market in light of the current pandemic

The Covid-19 pandemic has had, and is likely to continue to have, material impacts on customers, businesses and the wider economy. In light of this, in March 2020 the Commission implemented [steps](#) to protect customers affected by the pandemic and to support licensed providers during these challenging times.

Since the outbreak of the pandemic, the Commission has been pleased to see licensed providers and Scottish Water working together to ensure that affected customers could benefit from a partial deferral of their water charges and receive a refund of pre-paid monies. In line with the principles of Ethical Business Practice, some licensed providers have also pro-actively offered affected customers payment plans and revised payment arrangements. Since March 2020, Scottish Water has also supported licensed providers by suspending the two-month wholesale prepayment requirement on licensed providers. In light of Scottish Government's social distancing and business restriction measures, the Central Market Agency has also suspended all licensed providers' performance standard charges and waived two months of the Central Market Agency charges.

The Commission is now consulting with stakeholders on steps to transition the market back to its normal operations and to ensure that the lessons learnt during this pandemic are used to improve the market framework. This crisis has brought into focus the need to ensure that the water industry is appropriately resilient and that retailers are able to cope with unexpected shocks. It is, therefore, important, to consider how we can ensure that market participants are in a financially sustainable position and that the market is well placed to meet future challenges.

As we consider how to phase out the current support measures, we are mindful of our statutory duties to ensure an orderly functioning of the market and that there is no detriment to the wholesale business of Scottish Water. During this transition period, it is also important to preserve the operation and integrity of the market and to provide certainty to businesses. To this end, the Commission wants to ensure that the unwinding of the current support measures is done in a measured and proportionate manner. Given the uncertainties of the Covid-19 pandemic and in order to provide all stakeholders with sufficient time to consider the issues highlighted in this letter, the Commission is extending current support measures for another two months. The deferral scheme and the suspension of the prepayment of wholesale charges due by licensed providers will, therefore, last for an additional two months, until the end of February 2021.

This letter sets out a two-month extension of the current support measures and the Commission's views of the issues that it should consider in light of the pandemic. The Commission welcomes stakeholders' initial views on these issues and suggestions of any other issues that the Commission should consider. We expect market participants to review all the questions raised 'in the round' and to contribute in a constructive manner to the consultation.

Please provide any comments in response to the questions raised in Section 2, Section 3 and Section 4 of this letter, along with any other issues that you believe the Commission should consider. Responses should be sent to competitionteam@watercommission.co.uk by 22 January 2021.

Section 1. Temporary extension of the existing support measures in response to the pandemic

In line with its primary duties to promote the interest of customers and to ensure there is no detriment to the core business of Scottish Water, the Commission implemented support measures following a set of guiding principles:

- Businesses and other organisations impacted by the current crisis benefit fully from the scheme;
- The arrangements are sufficiently flexible that they can be adjusted or extended if required;
- There is 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 can be unwound in a manner that does not increase the burden on businesses and organisations when they start to recover from the crisis.

In light of these principles and given the current uncertainties of the pandemic, the Commission is taking steps to ensure that customers and licensed providers continue to receive support throughout these challenging times. The Commission is, therefore, extending the deferral scheme until 28 February 2021. This will provide stakeholders with sufficient time to consider the questions raised in this letter before the current support measures are fully unwound.

Under this extension, customers will continue to be able to access the scheme via their licensed provider without paying any interest on the deferred amounts. Licensed providers will continue to access the wholesale deferral scheme and will be required to pay interest to Scottish Water on the balance of deferred wholesale charges. Scottish Water will also continue to suspend the two-month prepayment requirement of wholesale charges due by licensed providers.

This short extension will provide customers affected by the pandemic with the possibility of an additional deferral without compromising the interest of future customers. Licensed providers will also be able to take advantage of the scheme by managing the potential bad debt risk for an additional two-month period and to benefit from an additional suspension of wholesale prepayments. The table below summarises the timescales for this temporary extension to allow full consideration of the questions set out in this letter.

| Measures | Original date | Revised date |
|---|----------------------------------|--|
| Retail deferral scheme | 31 December 2020 | 28 February 2021 |
| Repayment by customers of deferred retail charges | From March 2021 to February 2022 | From March 2021 to May 2022 ¹ |
| One-month wholesale prepayment | February 2021 | April 2021 |
| Two-month wholesale prepayment | May 2021 | July 2021 |

¹ Unless customers actively agree with their licensed provider to repay deferred charges over a different repayment period.

Section 2. Support measures in response to the Covid-19 pandemic

Before determining the potential timescales for a further extension or unwinding of current support measures beyond the temporary extension set out in Section 1, the Commission is seeking stakeholders' views on the following questions to phase out the support in a proportionate manner:

1. How should the Commission revise the current support measures to customers and licensed providers in light of the current pandemic and having regards to its statutory duty to ensure that there is no detriment to Scottish Water and that the interest of current and future customers is promoted?
 - a) Given our duties and to support the orderly functioning of the market, when should we consider reintroducing the two-month wholesale pre-payment due by licensed providers?
 - b) When should the deferral scheme be unwound? Should we consider a further extension of the current scheme beyond February 2021?
 - c) Could the current scheme remain in place for specific categories of affected customers? How could the scheme be improved to ensure that customers receive appropriate support having regard of the interest of future customers?
 - d) Are there any other issues that the Commission should consider?

Section 3. Questions on future proofing the retail market

In light of the current pandemic and in line with its statutory duty to promote the interest of customers and orderly functioning of the market, the Commission wants to ensure that licensed providers have the appropriate financial strength to perform their licensed activities. This includes ensuring that licensed providers can also deal with unforeseen external shocks. The Commission is, therefore, seeking stakeholders' views on the following questions:

2. How can we ensure that the market continues to operate effectively and that licensed providers are (and remain) financially resilient?
 - a) How can the Commission ensure that licensed providers have and retain the appropriate financial strength to withstand external shocks?
 - b) What test and evidence could be required to allow licensed providers to demonstrate appropriate financial strength?
 - c) How often should this be required from licensed providers? Could the Market Health Check be used to ensure that licensed providers are appropriately capitalised and retain the necessary financial strength to meet future challenges?
 - d) What would be a reasonable transition period to introduce such measures?
 - e) Are there any other issues that the Commission should consider?

In light of the current pandemic, the Commission also wants to ensure that customers are not unfairly disadvantaged nor exposed to any detriment by the activities of licensed providers operating in both the English and Scottish market. The Commission is, therefore, seeking stakeholders' views on the following questions:

3. How could we improve the transparency between the activities of retailers operating in both the English and Scottish market to ensure that customers are appropriately protected?
 - a) Should the Commission consider introducing reporting requirements on licensed providers to ensure appropriate cost allocation across the English and Scottish operations?
 - b) What form of regulatory accounting separation between retail activities undertaken in Scotland and those undertaken in England could be introduced? How could the reporting be monitored effectively?
 - c) What would be a reasonable transition period to introduce such measures?
 - d) Are there any other issues that the Commission should consider?

Section 4. Disconnections

In 2018, the Commission introduced temporary disconnections² for customer non-payment at the request of licensed providers in addition to the permanent disconnection process. These changes were introduced to support licensed providers in the implementation of water charging at vacant premises in line with Scottish Government's [Principles of Charging](#) for the 2015-21 period.

Since the outbreak of the pandemic, Scottish Water has reviewed the arrangements around disconnections for non-household premises. As a result of this, licensed providers have not been able to request a temporary disconnection due to customer non-payment.

In light of this, the Commission plans to undertake a comprehensive review of the disconnection arrangements and consider any necessary changes to the current processes at the end of the pandemic. The Commission is, therefore, seeking stakeholders' views on the following questions:

4.
 - a) What improvements could be made to the temporary and the permanent disconnection processes and, more generally, to the Commission's Disconnections Document³?
 - b) What changes should we consider making to the market framework to ensure that licensed providers can pursue customer non-payments effectively having regard of our duty to promote customers' interest?

² <https://www.mygov.scot/water-charges-vacant-properties/>

³ [Disconnections Document](#)

Next steps

The Commission will work alongside Scottish Water, licensed providers and the Central Market Agency to ensure that the Wholesale Charges Deferral Scheme measures in response to the Covid-19 pandemic are extended for another two months.

The Commission will also arrange a workshop in December 2020 with all market participants to discuss in more detail the issues included in this letter and will set up an industry-wide group to discuss next steps in January 2021.



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Chief Executive