

21<sup>st</sup> April 2020

**GIIA response to Ofwat consultation  
Covid-19 and the business retail market**

Dear Sir/Madam

Global Infrastructure Investor Association (GIIA) is the membership body for the world's leading institutional investors in infrastructure. Our members operate in 55 countries across 6 continents and are responsible for over \$780bn of assets under management globally, with over a third of that value invested in the UK. GIIA members have stakes in 10 of 15 of the privately held regional water companies in England and Wales, supplying over 50% of the UK population's water supply.

GIIA members have drawn our attention to the Ofwat consultation *Covid-19 and the business retail market: proposals to address liquidity challenges and increases in bad debt* published on the 16<sup>th</sup> April 2020 and we are keen to express the perspective of the institutional investor in infrastructure regarding the proposals.

This letter acts as a high-level position statement on behalf of the institutional investor community and does not seek to answer the eleven individual consultation questions in detail as these fall within the remit of the water operating companies. By way of background, many of GIIA's members are exposed in various markets across many sectors during the current global pandemic and are not exclusively exposed to the water sector in the UK.

*Position statement*

Wholesaler investors are fully aware of the challenges facing household and non-household retail customers as a result of the current COVID-19 crisis and the companies they are invested in are rising to the challenge, proactively helping customers and their communities by:

- Promoting schemes for vulnerable customers to receive financial relief.
- Committing to not disconnect domestic or business customers.
- Supporting hospitals including in the mobilisation of 'NHS Nightingales'.
- Seeking opportunities to employ unemployed workers.
- Providing payment holidays to customers who need them and stopping new court applications on unpaid bills during the current restrictions

Wholesaler investors are prepared to support the financial resilience of their companies being used to avoid a market failure in business retail which would have severe repercussions for the market for many years to come. Wholesaler investors positions with regards to the objectives of the consultation are therefore outlined as follows:

1. We welcome the objectives that Ofwat has set out within the consultation document and, in particular, that the financial resilience of wholesalers should not be unduly compromised by the arrangements, which would otherwise be at the expense of domestic 'end-user' customers.
2. We accept that business retailers may need to delay some payments to wholesalers, provided there is a robust mechanism for fully reimbursing wholesalers in a reasonable timeframe as proposed within the consultation.
3. We ask that Ofwat urgently confirm that it will seek to make allowances when calculating penalties which will be crucial as companies' financial capacity to absorb increased household bad debt, and also the bridging finance for business retailers, is predicated on not incurring increased ODI penalties that have resulted from the impacts of C19.
4. We also note that there may be temporary increases in company gearing to support these arrangements, and we trust that Ofwat will reflect that appropriately.

Wholesaler investors are hopeful that this constructive approach will be reciprocated when Ofwat comes to review the position on outcome delivery incentives (ODI's) for 2020/21. This is particularly the case given that the measures contained within the recent PR19 final determination were instituted at a time before the emergence of the current crisis and, as such, are not calibrated to accommodate the scale of the impacts that the crisis is now having on wholesalers' ability to meet the needs of end-users.

Additionally, sickness absence and social distancing measures are increasing pressure on performance commitments and causing deferral of non-critical wholesaler activity, including capital works and business improvement projects. Wholesalers will also likely face increased domestic customer bad debt, which they will need to absorb, potentially without regulatory amelioration. Another key concern is around the potential for the aforementioned failure in the retail market and whether Ofwat would, in that scenario, give relief on licence conditions in the event that ratings agencies further downgrade the industry.

Finally, we would ask Ofwat to make all outcome delivery incentives ODIs reputational for 2020/21 and then move all ODIs with a glide path for a year to recognise the impact that the crisis is having on network companies' ability to operate effectively on behalf of customers. This will also help towards the recapitalisation of retailers in the long-term. We would also urge Ofwat to consider what long term steps will be taken to facilitate the recovery from the drop in investment that is resulting from the current crisis.

Yours sincerely,



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