

# WHOLESALE-RETAIL CODE CHANGE PROPOSAL/ CHARGING CHANGE PROPOSAL

<b>Change Proposal Reference</b> <i>(To be completed by the Panel Secretary)</i>	<b>CPW095</b>	Version No	<b>1.0</b>
<b>Type of Change Proposal:</b> <i>(delete as appropriate)</i>	Change Proposal		
	<del>Charging Change Proposal</del>		
<b>Submission Date</b>	14 April 2020		
<b>Title:</b> of Change Proposal/Charging Change Proposal	Temporary requirement to Maintain March 2020 Credit Support Note Collateral Requirements		
<b>Summary:</b> of Change Proposal/Charging Change Proposal <i>(40 to 50 Words Maximum)</i>	<p>Due to Covid-19, many businesses are temporarily closed and under code change CPW091 Retailers are able to mark these as Vacant within CMOS. At the same time under CPW093 Retailers are also permitted to defer payment of a proportion of any remaining wholesale charges. The effect of this will increase the bad debt risk to wholesalers as Credit Support Requirements will be based on future P1 Settlement Reports which will be lower due to increased vacant premises, while at the same time Retailers that have deferred charges will owe wholesalers more. This is because the calculation for the CSR set out in the Code does not envisage this new scenario where a Retailer may not have paid all wholesale charges.</p> <p>Whilst not seeking to cover the additional default risk, this change proposes to maintain the Credit Support Requirements at the same level as the existing value as determined by the Credit Support Notes issued following publication of March P1 Settlement.</p>		
<b>General Details of the Proposer</b>			
<b>Name of Proposer</b>	Gerard Lyden		
<b>Capacity (to submit Change Proposals and Charging Change Proposals – on behalf of a Party, as a Panel member, as the customer representative, or the Market Operator or on behalf of the Authority; or Charging Change Proposals – on behalf of a Wholesaler).</b>	Wholesaler		
<b>Contact Email</b>	gerard.lyden@thameswater.co.uk		

Telephone Number	07747 642785	
The Proposer recommends that this Change Proposal/Charging Change Proposal should: (delete as appropriate)	<del>Proceed to Assessment</del>	
	<del>Proceed to Consultation</del>	
	Proceed to Recommendation	
Is the change Urgent (Yes/No)?	Yes	
If yes, please indicate which urgency principle(s) apply along with a rationale. Any supporting evidence should be included as an attachment to the Change Proposal form.		
Principle	Applies (Y/N)	Rationale
A significant impact on a party or parties, consumers or other stakeholder(s)	Y	P1s settlement reports were issued w/c 6 April and wholesalers need to have issued Credit Support Notices to retailers by 16 April. Retailers could reduce credit posted any time from 16 April onwards, due to the impact of vacant flags and YVEs.
A significant impact on the safety and security of the Central Market Operating System	N	
A material and immediate risk of causing a significant impact on the development and/or operation of the business retail market	N	
The code modification is required to comply with implement any Law	N	
If the change is Urgent please provide the proposed implementation date and the justification for this		
Proposed Implementation Date	15 April 2020	
Justification	In order to mitigate risk of reducing Credit based on issue of April 16 Credit Support Note	
<b>Related Documents</b>		

Reference of any associated Code Panel Change Proposal/ Charging Change Proposal	CPW091, CPW093
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Documents Accompanying Form	
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**Change Proposal/ Charging Change Proposal Details**

Description of (i) the issue or defect which this Change Proposal seeks to address, or (ii) the modified or new charging method or charging structure required pursuant to this Charging Change Proposal, as required under the Market Arrangements Code Section 6.2.1(b).

Due to Covid-19, many businesses are temporarily closed and under code change CPW091 Retailers are able to mark these as Vacant within CMOS and defer payment of up to 50% of wholesale charges to Wholesalers.

The purpose of the Credit Support Requirements are to maintain stability in the market should a retailer be unable to pay its settlement charge and are linked to the value of settlement as a measure of the size of the retailer. As the Credit Support Requirements (CSR) are calculated at each P1 settlement report, the effect of increasing the number of Vacant premises in the market will reduce the value of the Credit Support Balance required by Retailers.

The effect of deferring up to 50% of settlement charges creates a potential further bad debt risk should a retailer default.

In this context, and for the period during which wholesale trading parties extend credit to retailers and increase their bad debt exposure, collateral levels should in principle increase. However, and recognising the impracticality of this option for many retailers, as a minimum we do not think it would be appropriate for collateral level to be reduced.

Description of the Change Proposal/ Charging Change Proposal, its nature and purpose and (for Change Proposals only) how it is consistent with the Principles and falls within the Objectives noted below, as required under the Market Arrangements Code Section 6.2.1(c).

This change proposes that where a Retailer has deferred payments to a wholesaler in line with CPW093 they must maintain the Credit Support Requirements at a level no lower than in the Credit Support Note issued for the March P1 Settlement, for a time period to align with CPW091 and CPW093.

It inserts a new requirement in section 9.12.3 (c) to maintain the level in the March 2020 P1

Business Terms

Covid-19 Credit Requirements

9.12.3(c) For the purposes of the Credit Support Note generated from the April, May and June P1 settlement files, the value of the Credit Support Balance to be provided by a retailer shall be the value of the Credit Support Note issued in relation to the March P1 settlement files. Credit Support Notes shall still be calculated based on the relevant P1 settlement file and issued during this period but all rights to reduce levels of collateral posted are suspended until the July 2020 P1 settlement report or other time as notified by the Authority.

9.12.3(d) The requirement in 9.12.3(c) shall only apply to a Retailer where less than 100% of wholesaler charges have been paid to the relevant wholesaler.

## Principles and Objectives

Description of the principles and objectives affected by the Change Proposal on the items below (if applicable) as detailed in Part A of Schedule 1 Part 1: Objectives Principles and Definitions.

Principles	Affected (Y/N)	Description
Efficiency	N	
Proportionality	Y	This temporary change is a consequence of the changes agreed under CPW091 and CPW 093 and will apply for the same time bound period
Transparency	N	
Simplicity, cost-effectiveness and security	Y	This is a limited change to minimise wholesaler impact of a Retailer default
Barriers to entry	N	
Non-discrimination	N	
Customer participation	N	
Customer contact	N	
Seamless markets	N	
No limit on upstream competition	N	
Business Terms Objectives	Y	Measures to enable continuing effective functioning on the market
Operational Terms Objectives	N	
Market Terms Objectives	N	

Description of the impact of the Change Proposal/ Charging Change Proposal on the following items, as required under the Market Arrangements Code Sections 6.2.1 (f), (g) and (h).

Configured Item	Impacted (Y/N)	Description
Schedule 1: Terms and Conditions of a Wholesale Contract	N	
Wholesale-Retail Code, Schedule 1 Part 1 (Objectives, Definitions and Principles)	N	
Wholesale-Retail Code, Schedule 1 Part 2 (Business Terms)	Y	Changes to Section 9. Billing and terms of payment
Wholesale-Retail Code, Schedule 1 Part 3 (Operational Terms)	N	
Wholesale-Retail Code, Schedule 1 Part 4 (Market Terms)	N	
Wholesale-Retail Code, Schedule 1 Part 5 (CSDs)	N	
Wholesale-Retail Code, Schedule 1 Part 6 (Operational Forms)	N	
Appointment	N	
Licence	N	
Any other industry code, agreement or document (e.g. the Wholesale Contract or the MOSL Articles) (please specify)	N	
Central Market Operating System	N	
Trading Party systems which interface with Central Systems and other relevant Trading Party systems/ business processes.	N	
Scottish Core Industry Documents	N	

## Further Information

Description of any discussions on the topic of the Change Proposal/ Charging Change Proposal at the User Forum (as relevant) or otherwise relevant discussions with parties, as required under the Market Arrangements Code Section 6.2.1(i).

Discussion via Water UK with other Wholesalers and engagement with Ofwat

## Further Comments

## Key

	To be completed by the Market Operator
	To be completed by the Proposer