

Guidance on Payment Deferral (Medium Term) – CPW096

May 2020

v1.1

Document Change control

Version	Date Issued	Amendments
V1.0	17/05/2020	Initial Version (ADS)
V1.1	20/05/2020	Amended footnotes on page 4 Updated Frequently Asked Questions section of accompany document (part 2) to include questions asked during webinars on 19 – 20 May.

CONTENTS

1	Introduction	4
1.1	Purpose of this document.....	4
1.2	Reviewing this document.....	4
1.3	Overview	4
2	Background	5
3	Summary of the Arrangements Introduced by CPW096	5
4	More Detailed Information.....	6
5	MOSL Contacts.....	6

1 INTRODUCTION

1.1 PURPOSE OF THIS DOCUMENT

This document is designed to be a supplementary working document on guidance to the implementation of CPW096 – Payment Deferral (Medium Term).

1.2 REVIEWING THIS DOCUMENT

This guidance document shall be reviewed by the Market Operator on an as-needed basis.

1.3 OVERVIEW

The outbreak and spread of Covid-19 in the UK has had a profound impact on the daily lives of millions of people, as well as businesses across the country. In March 2020, the government issued guidelines on how to help prevent the spread of the virus, which included advising against non-essential travel and for businesses to make every possible effort to enable their staff to work from home. Many businesses have since temporarily closed their doors to the public. This has caused a significant reduction in their level of water usage, as well as their ability to pay for any water that they have used.

The Authority (Ofwat) and the Market Operator (MOSL) have made changes to the market codes to address the issue of reduced demand. Two Authority Timetabled Change Proposals affecting settlement charges and one Trading Party Urgent Change Proposal affecting credit requirements have been implemented:

- 1) CPW091: ‘Temporary Changes to Vacancy’ – this Change Proposal¹ introduced temporary measures that allowed for the suppression of estimated volumes in CMOS, implemented 30 March 2020; and
- 2) CPW093: ‘Payment deferral interim measures’ – this Change Proposal² permitted the deferral of primary charge payments between Retailers and Wholesalers for March, April and May 2020, implemented 30 March 2020.
- 3) CPW095: ‘Maintain Credit Requirement’ This Change Proposal³ required 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 March 2020 P1 Settlement, for a time period to align with CPW091 and CPW093, implemented 16 April 2020.

¹ The documents for CPW091, including Ofwat’s decision document, can be found on the MOSL website: <https://www.mosl.co.uk/market-codes/change/details/117/temporary-changes-to-vacancy>

² The documents for CPW093, including Ofwat’s decision document, can be found on the MOSL website: <https://www.mosl.co.uk/market-codes/change/details/118/payment-deferral-interim-measures>

³ The documents for CPW095, including Ofwat’s decision document, can be found on the MOSL website: <https://www.mosl.co.uk/market-codes/change/details/121/urgent-maintain-credit-requirements>

2 BACKGROUND

In early April, Ofwat confirmed its intention to develop a longer-term solution to address liquidity challenges and unwind the cash flow impacts of the COVID-19 pandemic. This included proposals for addressing levels of bad debt which exceed the 'normal' levels of bad debt that Retailers are already compensated for in the Retail Exit Code (REC).

Ofwat issued a consultation to the market on liquidity and bad debt on Thursday 16 April in time for the responses to be summarised ahead of the April Panel meeting. Individual responses to this consultation were published on the Ofwat website on 24 April.

In parallel, MOSL convened a Panel sub-group to look at Ofwat's preferred approach to addressing liquidity challenges and define any detailed solution with support from industry. The group also considered how a mechanism to manage deferred payments might be set out in the market codes. The sub-group considered the reporting required to support the identification of a deferral schedule and the ongoing monitoring against that schedule.

Ofwat took account of the outputs of the sub-group as well as feedback from its consultation when considering the way forward on liquidity.

The resulting urgent authority timetabled change proposal, CPW096: 'Payment Deferral Medium Term', was raised on 27 April, considered by the Panel at its meeting on 28 April and after incorporating a number of amendments recommended by the Panel, it was implemented on 1 May.

CPW096 replaces the interim arrangements introduced by CPW093. See [Schedule 1 Part 1 \(Version 12.0\)](#) and [Schedule 1 Part 2 \(Version 14.1\)](#) of the WRC.

Where a Retailer does not wish to participate in the new arrangements, or is not able to do so, then any amounts deferred under CPW093 must be invoiced by 20 May 2020 and repaid by 30 May 2020.

3 SUMMARY OF THE ARRANGEMENTS INTRODUCED BY CPW096

Wholesalers will invoice Retailers for 100% of the wholesale charges due each month.

Retailers who opt-in to the deferral arrangements will be required to place invoices in one of three pools:

- ◆ **Pool A:** Invoices pertaining to March 2020.
- ◆ **Pool B:** Invoices pertaining to April 2020 onwards.
- ◆ **Pool C:** Invoices subject to Alternative Payment Terms.

For Pool A Retailers will pay 50% of primary charges due to the Wholesalers, increasing to 60% in June ('Z' factor).

For Pool B Retailers will pay the higher of either 94% of the cash they have collected from customers since 1 April +/- adjustments ('X' factor) or 60% of cumulative primary charges raised by Wholesalers since 1 April ('Y' factor).

Pool C is subject to bilaterally negotiated arrangements.

The 'Y' factor will be fixed for all settlement runs until the end of July, after which it automatically reverts to 100 per cent unless Ofwat amends it.

Ofwat has indicated that it anticipates deferred wholesale charges should be paid back in full by end March 2021.

In order to qualify for these deferred payment arrangements, Retailers will need to provide information about the amounts they are receiving from their customers.

Wholesalers are able to charge interest on deferred payments to incentivise Retailers to use other sources of liquidity (including Government initiatives) where they can. This will also allow some remuneration of the risk facing Wholesalers from providing extra liquidity to the business retail market and maintain incentives on Retailers to search for cheaper forms of credit. Ofwat has set this at a maximum interest rate of 5.98% per annum.

MOSL will provide templates and associated guidance to trading parties to support the reporting required when Retailers opt to defer a proportion of charges.

MOSL will also put in place the required working processes to collate the information and send on to Ofwat.

In its decision document, Ofwat confirmed that if Retailers who opt to defer payment of wholesale charges are not complying with the requirements of the scheme, it may rule out the option of extending the provision of liquidity beyond July 2020 for all Retailers.

4 MORE DETAILED INFORMATION

More detailed information and guidance is set-out in the accompanying PowerPoint presentation 'Guidance on CPW096 Payment Deferral (Medium Term)'.

5 MOSL CONTACTS

If you have any questions please email our operations team at operations@mosl.co.uk in the first instance.

Andrew Stoneman
Finance Director

☎ 07930 520993

✉ andrew.stoneman@mosl.co.uk