
Wholesale Retail Code Change Proposal – Ref CPW107

Modification proposal	Wholesale Retail Code Change Proposal – CPW107 – Covid-19 Temporary Vacancy exemptions for credit support
Decision	The Authority has decided to approve this Change Proposal
Publication date	22 October 2020
Implementation date	08:00 23 October 2020

Background

Implementation of [CPW091 – Temporary Changes to Vacancy](#), enabled Retailers to mark premises as temporarily vacant within CMOS from 30 March 2020. Ofwat subsequently approved CPW101 ('Unwinding Temporary Covid-19 Arrangements in the Business Retail Market') to let the use of the temporary vacant flag expire on 31 July 2020, and to require Retailers to remove any temporary vacancy flags from CMOS by 30 September 2020. Retailers are required to obtain meter reads to reflect actual consumption, or where a meter read cannot be obtained, the Retailer is required to engage with the customer to obtain an accurate estimate of consumption.

Where temporary vacancy flags are removed, Retailers must mark the premises as Occupied Premises or Vacant Premises. Where premises are marked as Vacant Premises, Retailers need to assure themselves that the premises meet the original criteria for being classified as a Vacant Premises (which is defined under sections 3.1.3 to 3.1.5 of CSD 0104 (Maintain SPID data) and mark the premises as 'evidenced' in CMOS. Retailers are required to maintain evidence in support of their conclusions that each of those Vacant Premises which it records as 'evidenced'.

The issue

For Retailers to return in October to previously established credit support rules following implementation of CPW101 – Unwinding Temporary Covid-19

Arrangements¹ in the Business Retail Market, Retailers were required to update the occupancy status of Covid-19 vacant premises (those recorded as vacant between 16 March – 31 July) to either Occupied or Vacant with the text field “evidenced” where the vacancy status is maintained (also called “assured vacant”) by 30 September 2020.

Whilst Retailers have attempted to change the occupancy status for vacant premises CMOS has been unable to effect these requests on some occasions. This situation has occurred where the Supply Point (“SPID”) has been switched, de-registered or there is a CMOS constraint.

Following implementation of CPW101, if a Retailer has any Covid-19 vacancy flags which are not updated, according to Section 9.12.3(c) of the Business Terms, that Retailer must maintain the March 2020 Credit Support Requirement level.

Five Retailers would be required to lodge credit at March 2020 levels or above by 23 October 2020 (if they had post-payment agreements with their Wholesalers which required Credit Support Amounts to be paid) as a result of supply points not being updated for reasons outside their control. In aggregate, these Retailers will be required to lodge more than £8 million in additional credit support requirements (although this excludes any associated discounts under their Unsecured Credit Allowances).

The Change Proposal²

It is proposed that an exemption is created for Supply Points affected by this issue. Where it is beyond the control of a Retailer to change the Occupancy Status of an affected Supply Point, that Supply Point will not be included in the reporting of removal of Covid-19 vacancy flags which is provided by the Market Operator [to the Authority].

These exemptions are intended to cover the following circumstances, where:

1. A Premises is assigned a temporary vacant flag and subsequently switches to a new Retailer who cannot undo actions completed by the original Retailer.

¹ CPW095 [Maintain Credit Requirements](#) set out the requirements to maintain credit support requirements at March 2020 levels where Retailers had deferred payments to a Wholesaler during the Covid period

² The proposal and accompanying documentation is available on the MOSL website at <https://www.mosl.co.uk/market-codes/change#scroll-track-a-change>

2. A Premises has been assigned a temporary vacant flag and its SPID has subsequently been de-registered, locking it against any further change
3. A constraint in the CMOS interaction prevents the Retailer from editing the premises in CMOS to remove a temporary vacant flag.
4. An exemption has been granted by Ofwat due to circumstances in its opinion are outside of the Retailer's control.

Where the Occupancy Status of supply points affected by this issue cannot be changed, Retailers would be able to return to the normal credit support rules. There would be no effect on calculation of the Provisional (P1) Settlement Report.

These changes would be made effective by amendments to the legal text of CSD 0104, the WRC Objectives, Principles and Definitions and the Business Terms.

In addition, the change proposal clarifies that for the purpose of returning to previously established credit support rules following implementation of CPW101, retailers are required to update the occupancy status of Covid-19 vacant premises, which are defined as premises that were: i) recorded as vacant between 16 March – 31 July; and ii) with an effective from date between 16 March – 31 July.

There has been no consultation on this Change Proposal.

Panel recommendation

The Panel considered this Change Proposal at its meeting on 21st October 2020. It recommended, by unanimous decision, that the Authority approve this proposal. This recommendation has been made on the basis of improving the principle(s) of efficiency and proportionality. The recommended date of implementation is 8am 23 October 2020.

Our decision and reasons for our decision

We have considered the issues raised by the Change Proposal and the supporting documentation provided in the Panel's Final Report and have decided to approve the proposal. We have concluded that the implementation of CPW107 will better facilitate the principles and objectives of the Wholesale Retail Code detailed in Schedule 1 Part 1 Objectives, Principles and Definitions, and is consistent with our statutory duties.

We agree that this change proposal supports the effective operation of the business retail market by preserving the underlying purpose and intent of CPW101 ('Unwinding Temporary Covid-19 Arrangements in the Business Retail Market') from failing as a result of circumstances arising outside Retailers' control, and is a proportionate solution to the issues identified. We also agree that this change improves market stability by mitigating the risk of excessive levels of Retailers' working capital being tied up in credit support.

The changes to the WRC Schedule 1 Part 1 and 2 and CSD 0104 are aligned to this change and further clarify the reporting requirements needed to support this change. We stress however that where exemptions have resulted from Premises that have been switched, Wholesalers need to continue to work with Retailers to resolve this issue in line with the requirements of CSD 0104, section 3.2.6.

Where Ofwat considers exemptions to the reporting of removal of vacancy flags by the Market Operator on the basis that a Retailer has been unable to change the occupancy status of those premises for reasons outside of that Retailer's control, any decisions made will be done so in an open and transparent manner for all parties with full explanation of the reasons.

Finally, we acknowledge that the clarification contained in this change proposal means that there will be premises recorded as vacant between 16 March – 31 July 2020 with an earlier or later effective from date, which still need to be updated to either Occupied or assured Vacant after Retailers have returned to previously established credit support rules. We will work with MOSL as part of the Covid-19 transition review group to ensure relevant Retailers update the status of these premises in CMOS as a priority.

Decision notice

In accordance with paragraph 6.3.7 of the Market Arrangements Code, the Authority approves this Change Proposal.

Georgina Mills
Director, Business Retail Market