

# **Yorkshire Water Wholesale Credit Support & Alternate Payment Terms Consultation**

**August 2019**

# About this consultation

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# 1. Introduction

## Introduction

At the time of the launch of the Yorkshire Water Credit Support 100 arrangement, we committed to continually reviewing our approach to Alternative Eligible Credit Support. Following an extensive internal review and ongoing dialogue with our contracted retailers and other stakeholders, Yorkshire Water is seeking feedback on the intended implementation of a new approach to Alternative Eligible Credit Support and Alternative Payment Terms.

## Aims & Objectives

The four key principles of the Yorkshire Water approach to Alternative Eligible Credit and Alternative Payment Terms are that any arrangement is;

- simple to understand
- beneficial to all Retailers
- accessible to all Retailers
- easy to implement and administer

To ensure that our proposal is fit-for-purpose, we would like to invite you to provide feedback on our revised Alternative Eligible Credit offering, as well as our Alternative Payment Terms proposal. Please review the supplementary documentation by accessing the draft agreements attached to the accompanying email and respond to each of the questions in this consultation.

Thanks in advance, Yorkshire Water

# Alternative Eligible Credit Support

## 2. Yorkshire Water Credit Support

### What is Yorkshire Waters proposed Alternative Eligible Credit Support offering?

Yorkshire Water Wholesale is exposed to the risk of retailer default and therefore the aims and objectives defined above need to be balanced against any potential commercial risk. Yorkshire Water acknowledge that retailers pose different levels of commercial risk depending on their ownership structure, financial stability and payment history Whilst the unsecured credit support available to retailers is already reflected within the market codes in Schedule 2E of the Business Terms: Unsecured Credit Allowance where holding a Credit Rating entitles retailers to a higher Unsecured Credit Allowance than a Credit Score, Yorkshire Water would like to support retailers and the wider market by introducing further credit options

With this in mind Yorkshire Water has developed a new three-tiered proposal for Alternative Eligible Credit Support, each with respective eligibility criteria. These seek to provide a simple, effective and low maintenance credit arrangement to all retailers with an active Wholesale Contract for Wholesale Services with Yorkshire Water and are listed as follows:

1. Credit Support 100
2. Credit Support Investment Grade
3. Credit Support Government

### Credit Support 100 (CS100)

Credit Support 100 was launched in April 2019 and is currently available to all eligible retailers and this arrangement will continue under its current terms. Yorkshire Water currently have 14 retailers taking advantage of this offering and continue to receive positive feedback on this approach to AEC.

| Credit Support 100 (CS100)           |  |
|--------------------------------------|--|
| 1) Why we are offering it?           | <ul style="list-style-type: none"><li>• Credit Support 100 seeks to provide a simple, effective and low maintenance credit arrangement to all retailers.</li><li>• At the start of the market new entrant retailers found it difficult to obtain a standard form of credit as described section 9.11.4 of the Business Terms so this offering is aimed at removing a barrier to entry.</li></ul> |
| 2) What are we offering              | <ul style="list-style-type: none"><li>• £100,000 unsecured credit for eligible retailers</li></ul>   |
| 3) What are the eligibility criteria | <ul style="list-style-type: none"><li>• The retailer must have a good payment performance and history.</li><li>• The full list of eligibility criteria can be found here - <a href="#">Link</a></li></ul>  |

## Credit Support Investment Grade (CSIG)

| Credit Support Investment Grade (CSIG) |   |
|--|---|
| 1) Why we are offering it?             | <ul style="list-style-type: none"><li>• The rationale for providing increased credit support to retailers with Investment Grade status is that these retailers present a lower risk profile, as is already reflected in Schedule 2E of the Business Terms: Unsecured Credit Allowance</li></ul> |
| 2) What are we offering                | <ul style="list-style-type: none"><li>• £250,000 unsecured credit for eligible retailers</li></ul>  |
| 3) What are the eligibility criteria   | <ul style="list-style-type: none"><li>• The retailer must have a good payment performance and history.</li><li>• The Contracting Retailer must hold an Investment Grade Status the meets the Minimum Credit Rating as defined in the in the Wholesale Contract Schedule 1.</li></ul>            |

## Credit Support Government backed (CSGov)

| Credit Support Government backed (CSGov) |  |
|--|--|
| 1) Why we are offering it?               | <ul style="list-style-type: none"><li>• The rationale for proving increased support to retailers who are Government backed is that retailers with this ownership status present the lowest risk profile.</li></ul>                   |
| 2) What are we offering                  | <ul style="list-style-type: none"><li>• 100% unsecured credit for eligible retailers</li></ul>   |
| 3) What are the eligibility criteria     | <ul style="list-style-type: none"><li>• The retailer must have a good payment performance and history.</li><li>• To be eligible, retailers should be majority owned (more than 50%) by a UK Government or EU Member State.</li></ul> |

# Alternative Payment Terms



# 3. Yorkshire Water Alternative Payment Terms

## Introduction

In addition to a new three-tiered approach to Alternative Eligible Credit Yorkshire Water is also seeking feedback on a new proposal for Alternative Payment Terms following the implementation of Wholesale Retail Code Change CPW048.

## What is Yorkshire Waters Alternative Payment Terms proposal?

| Alternative Payment Terms (APT 90)   |  |
|--------------------------------------|--|
| 1) Why we are offering it?           | <ul style="list-style-type: none"> <li>To support retailers in managing cash flow Yorkshire Water is proposing a new Alternate Payment Term offering.</li> <li>To support an effectively operating market</li> <li></li> </ul>   |
| 2) What are we offering              | <ul style="list-style-type: none"> <li>90 days payment terms for post-paying retailers with reference to section 9.2.3(c) and 9.3.8 of the Business Terms</li> </ul>   |
| 3) What are the eligibility criteria | <ul style="list-style-type: none"> <li>To be eligible for this agreement retailers are required to hold either;               <ul style="list-style-type: none"> <li>a Minimum Credit Rating as defined in the in the Wholesale Contract Schedule 1 and/or;</li> <li>be majority owned (more than 50%) by a UK Government or EU Member State.</li> </ul> </li> </ul> |

## Additional collateral

The proposed 90 days Alternative Payment Terms will give retailers an additional 60 payment days above Section 9.2.3(c) of the Wholesale Contract Part 2: Business Terms.

To cover the additional Wholesale risk Yorkshire Water will require additional credit support through one of the forms referenced in section 9.11.4 and 9.11.5 of the Business Terms. The additional credit support required must be equal to 40 days collateral when calculated using the P1 settlement report. This approach ensures that the arrangement is simple and easy to administer.

For the avoidance of doubt CS100, CSIG or CSGov cannot be used to cover the additional collateral required by entering into Alternate Payment Terms.

## Worked Example of the Alternate Payment Terms

|   |            |  |
|---|------------|--|
| P1 Settlement value for month X   | £25,000.00 |  |
| 50 days liability (P1 Settlement value / Days in month * 50)  | £41,666.67 | The Credit Support Balance can be covered using CS100, CS IG or CS Gov   |
| Amount of collateral required to cover the additional 40 days to support APT (P1 Settlement value / Days in month * 40) | £33,333.33 | The additional liability must be covered using a form of credit specified in section 9.11.4 or 9.11.5 in the Business Terms. |
| 50 + 40 = 90days.   |            |  |

[yorkshirewater.com](http://yorkshirewater.com)

