

# **Yorkshire Water Credit Support 100 Consultation Results**

**February 2019**

# About this consultation

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# 1. Introduction

The Credit Support 100 consultation was sent to all contracted Retailers (32), plus Ofwat and MOSL. The survey was open for two weeks and the following questions were asked;

Number	Question
Q1	Please state which organisation you represent?
Q2	How do you think the Yorkshire Water Credit Support 100 proposal compares to other Schedule 3 arrangements that are currently operating in the market?
Q3	How do you think the Yorkshire Water Credit Support 100 proposal will benefit the market?
Q4	Do you agree that Yorkshire Water Credit Support 100 proposal supports the Objectives and Principles of the WRC? Please explain your answer. (Efficiency, Proportionality, Transparency, Simp...)
Q5	Please provide your comments on the Draft Credit Support 100 Agreement?
Q6	Would you be interested in requesting a YW Credit Support 100 agreement? If No, please explain why not?

## 1.1 Responses

7 retailers responded along with Ofwat but we did not receive a response from MOSL.

The feedback was overwhelmingly positive, however there were two specific comments of note submitted by the recipients.

One relating to clause 10 (c)<sup>1</sup> which states that the agreement may be terminated immediately if the Contracting Retailer fails to make a payment. We have considered this specific point by analysing payments made to Yorkshire Water since the opening of the non-household retailer market. We observe that there are very few late payments with 97% of payments made on time. Given these high payment standards from retailers, we have elected to maintain the clause as set out in the consultation.

The second comment stated that the mechanism for calculating the discounted credit support amounts should be based on the recommended credit limit provided by a reputable credit scoring agency. We have considered this specific point but in response we feel that having a fixed £100,000 discount gives the simplicity, ease of use and supports a level playing field by helping new and established retailers equally. We will keep this fixed amount under review as the market develops and Credit Support 100 is being taken on by retailers. We have elected to maintain the £100,000 discount amount as set out in the consultation.

<sup>1</sup>10(c) This Agreement may be terminated by the Contracting Wholesaler immediately if the Contracting Retailer in any event fails to make a payment (regardless of the amount) due under the Wholesale Contract on or before the due date, in accordance with Business Terms.

# Consultation Results

## 2. Results

### Q1. How do you think the Yorkshire Water Credit Support 100 (CS100) proposal compares to other Schedule 3 arrangements that are currently operating in the market?

90% of recipients believe that the YW CS100 is an improvement compared to other Schedule 3 arrangements already operating in the market and liked that it is very similar to other Schedule 3's already in place and therefore a tried and tested method.

However, one retailer stated that clause 10 (c) was rather stringent as administration errors can occur within smaller organisations. Yorkshire Water recognise that administration errors may occur. This has been reflected in the wording stating that the agreement may be terminated allowing Yorkshire Water to use its discretion. Furthermore, clause 10 (c) has been added to provide extra security to Yorkshire Water and by offering this beneficial Schedule 3 to retailers we expect payment performance is maintained as per the market codes.

Another retailer said that the mechanism for calculating the amount of unsecured credit should be based on the recommended credit limit provided by reputable credit scoring agencies. Yorkshire Water have considered this challenge but in response we feel that having a fixed £100,000 gives the simplicity, ease of use and supports a level playing field by helping new and established retailers. In addition, using the credit limit in the proposed manner would add an administrative burden each month due to the fluctuating credit scores. Furthermore, a retailer's financial exposure against their available credit limit at any one time is unknown to Yorkshire Water. Using this to calculate an unsecured allowance would require visibility of each retailer's credit exposure. Again, this doesn't meet the key principles we set out to achieve.

*Retailer feedback: "The Yorkshire Water Credit Support 100 proposal is a good proposal which will be beneficial to retailers operating in the Yorkshire Water area. We would consider this to be in the top 5 of all schedule 3 proposals offered by wholesalers."*

### Q2. How do you think the Yorkshire Water Credit Support 100 proposal will benefit the market?

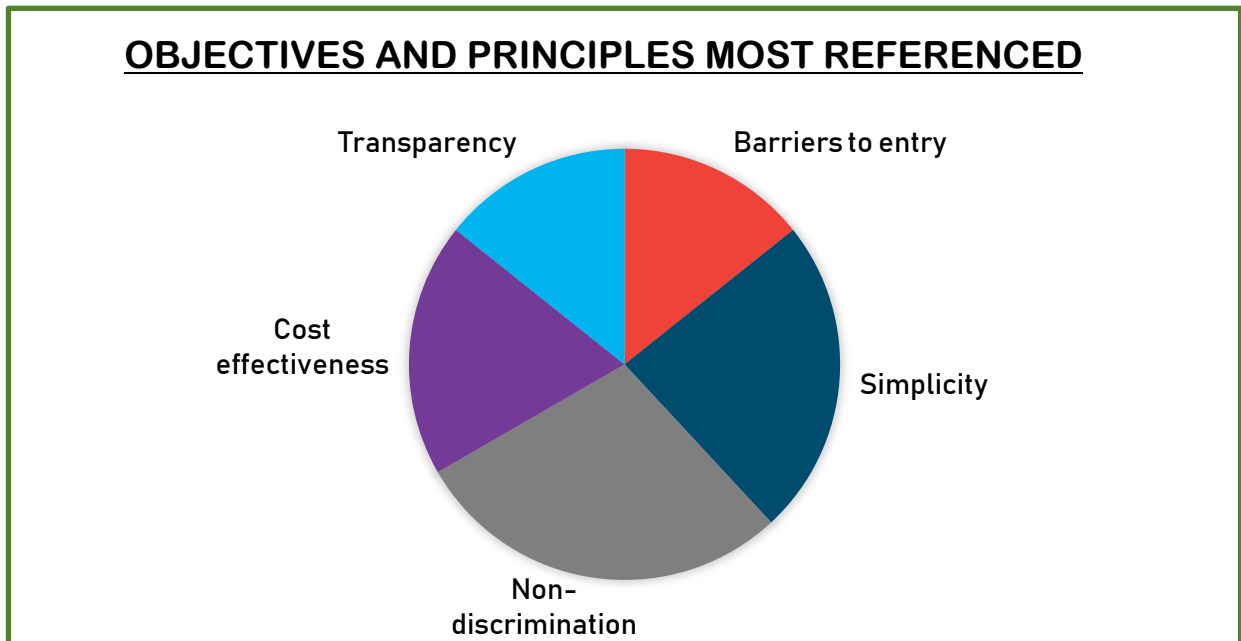
100% of respondents thought that CS100 will benefit the market. It will help new entrants by removing the barrier to entry but also provide a material financial benefit to the larger organisations. Having AEC in place will allow smaller Retailers to align payment terms to customer's needs.

Retailer feedback: "We view CS100 as a truly beneficial offering to help new entrants deal with wholesale charge settlement in the early days of establishing a retail service."

### Q3. Do you agree that Yorkshire Water Credit Support 100 proposal supports the Objectives and Principles of the WRC?

100% of the participants said that this proposal supports the Objectives and Principles of the WRC. Simplicity and Non-discrimination featured most often in the commentary. One retailer said, "It is a very simple, transparent and quick process to deliver an agreement".

This feedback aligns to our key principles; simple to understand, is financially beneficial to all Retailers, accessible to all Retailers, easy to implement and administer.



### Q4. Please provide your comments on the Draft Credit Support 100 Agreement?

#### Retailer Comments

It seems generous and reasonable.

The main comment is around payment failures, where other wholesalers have opted for a "three strikes" policy. We believe this would be a fairer method to utilise over say a 12-month period, as administrative errors can occur in smaller organisations more easily, and this would allow for these whilst still having the same impact of ensuring retailers meet their payment obligations.

We are fully supportive of the draft Credit Support 100 agreement. We believe that it will promote competition in the Yorkshire Water area and remove barriers to entry into the market place. As a new entrant retailer, this will be a significant benefit to us.

We approve of the offer and appreciate that wholesalers are responding to the needs in particular of new entrants to the market

The Credit Support Agreement will allow and encourage more competition within the wholesale region. The Credit Support 100 Agreement is simple and clear and easy for retailers to adopt and understand.

Whilst we agree that a level of unsecured credit allowance should be available to retailers, we don't feel that the proposal you have provided accurately reflect the relative risk of different

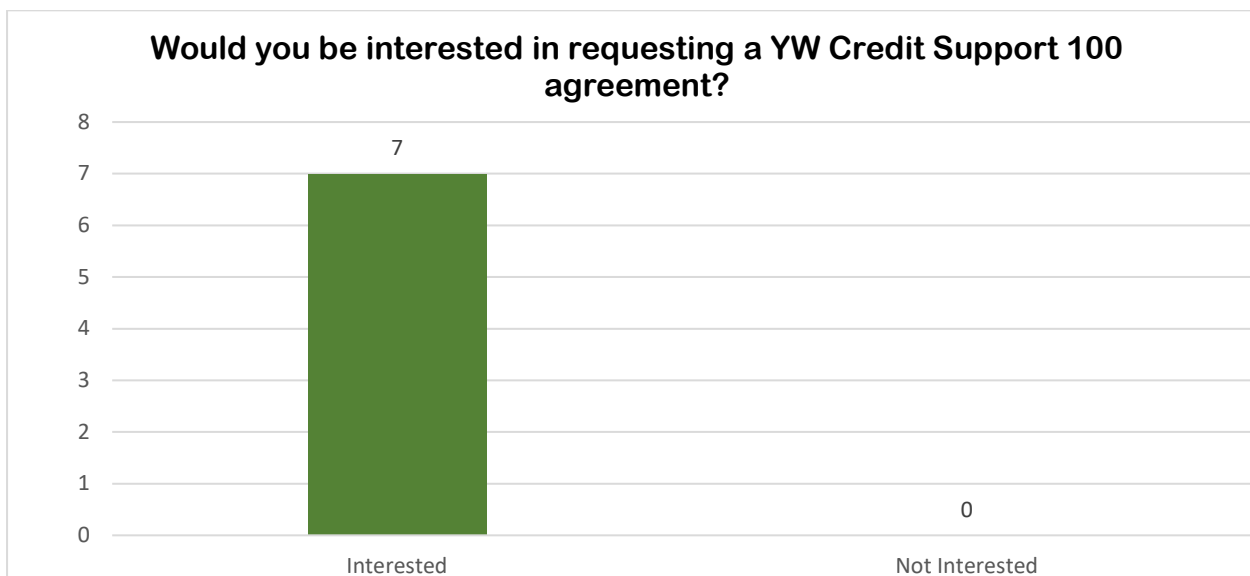
retailers operating in the market (i.e. a £100k discount for one retailer is a far greater risk for Yorkshire Water to take, compared to other retailers).

We would suggest that a discount at the level of the recommended credit limit provided by reputable credit scoring agencies (e.g. D&B, Equifax, Experian) would be more appropriate. This would have the benefit of protecting Yorkshire water from retailer default on high-risk businesses, whilst enabling more credit worthy retailers to grow to a more respectable size.

The Water Retail Company also posted on their Twitter account.



**Q5. Would you be interested in requesting a YW Credit Support 100 agreement?**



All those that conducted the survey would be interested in requesting the Credit Support 100.



# Conclusion & Next Steps

### 3. Conclusion & Next Steps

After reviewing and considering the feedback we have chosen to launch the Credit Support 100 as set out in the consultation. We believe that this policy satisfies each of the principles we set out to achieve. It is simple to understand, is beneficial to all Retailers, accessible to all Retailers and is easy to implement and administer

Credit Support 100 will be available to all retailers from the 1<sup>st</sup> April 2019 allowing time for all retailers to apply and gain access at the same time.

## 4. Appendix 1 – Policy Document

# Schedule 3 – Credit Support 100

between

Yorkshire Water Services  
Limited

and

[Retailer]

## BETWEEN

- (1) Yorkshire Water Services Limited, a company incorporated in England and Wales (No. 02366682) whose registered office is at Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ (the "Contracting Wholesaler"); and
- (2) [Retailer], a company incorporated in England and Wales ([Company Number]) whose registered office is at [registered address] (the "Contracting Retailer")

## BACKGROUND

- (A) Pursuant to Schedule 3 of the Business Terms contained within the Wholesale Contract, a wholesaler and a retailer may agree to an Alternative Eligible Credit Support arrangement.
- (B) This Agreement is an Alternative Eligible Credit Support arrangement between the Wholesaler and the Retailer, the purpose of which is to reduce the Eligible Credit Support required to be provided by the Retailer in connection with its Wholesale Contract with the Wholesaler dated [ADD DATE] and made under section 66E or section 117E of the Water Industry Act 1991 ("the Contract")
- (C) Under the Contract, the Contracting Retailer is required to provide monthly Eligible Credit Support in the sum of the Credit Support Amount and in relation to that month's Primary Charges;
- (D) The Contracting Wholesaler has agreed to enter into this Alternative Eligible Credit Support Agreement to enable it to reduce the amount of Eligible Credit Support required of the Contracting Retailer.

It is agreed as follows:

1. Unless defined in this Agreement, all defined terms herein shall have the meaning given to them in the Contract
2. This Agreement shall take effect on the date hereof and subject to clause 10 shall continue until 31 March 2020 when it shall automatically terminate unless otherwise agreed in writing by the parties.
3. Notwithstanding anything to the contrary in the Contract, with effect from the first Credit Support Notice issued by the Contracting Wholesaler to the Contracting Retailer during the term of this Agreement, the Contracting Retailer shall be required to provide Eligible Credit Support each month only on the Discounted Credit Support Requirement.
4. The Discounted Credit Support Requirement shall be calculated by the Contracting Wholesaler by deducting £100,000 from the amount specified in the P1 Aggregated Settlement Report issued to the Contracting Retailer and the Contracting Wholesaler or such lesser sum such that the Discounted Credit Support Requirement for that month is never less than £0 (zero) (which sum shall be called the 'Discount')
5. Other than the Discount, nothing in this Agreement shall affect the Credit Support Requirement as calculated under the Contract.

6. Subject to clause 5, if in any month the Primary Charges falling to be paid by the Contracting Retailer are less than the Discount then the Contracting Wholesaler shall treat the Credit Support Requirement for that month as zero.
7. Nothing in this Agreement affects:
  - (A) any Unsecured Credit Allowance to which the Contracting Retailer is entitled; or
  - (B) any choice the Contracting Retailer has of the manner in which it meets the Credit Support Requirement.
  - (C) the Retailer's rights to have any Excess Eligible Credit Support Amount returned or to reduce the amount of Eligible Credit Support provided to match the Credit Support Requirement.
8. If as a result of this Agreement the Contracting Retailer's Credit Support Amount for any month falls to below the Discount then:
  - (A) the Contracting Wholesaler agrees that the Contracting Retailer may withdraw any existing credit support with immediate effect; and
  - (B) where requested the Contracting Wholesaler will return any cash posted as part of any cash deposit agreement between the parties within 7 working days of this Agreement being signed.
9. This Agreement will automatically terminate if the Wholesale Contract terminates.
10. This Agreement may be terminated:
  - (A) by the Contracting Retailer immediately on written notice to the Contracting Wholesaler; or
  - (B) by the Contracting Wholesaler on 30 days written notice to the Contracting Retailer; or
  - (C) by the Contracting Wholesaler immediately if the Contracting Retailer in any event fails to make a payment (regardless of the amount) due under the Wholesale Contract on or before the due date, in accordance with Business Terms; or
  - (D) if the Contracting Wholesaler otherwise has reasonable grounds to believe that the contracting retailer will default on its payment obligations under the wholesale contract and in such circumstances the Contracting Wholesaler shall notify the Contracting Retailer in writing and the requirements of the Wholesale Contract relating to the provision of Eligible Credit Support shall continue as though this Agreement was not in force and effect from the date of the written notice.
  - (E) by either Party In the event that replacement Credit support arrangements take effect between the Parties.
11. On expiry or earlier termination of this Agreement the arrangements set out herein shall end and the provision of credit support by the Contracting Retailer shall be

governed exclusively by the Contract and the parties agree to co-operate with each other to the extent necessary to ensure compliance with the Contract.

12. The Contracting Retailer acknowledges and agrees:
  - (A) that it is entering into this Agreement as a means of obtaining Alternative Eligible Credit Support within the meaning of Schedule 3 of the Contract; and
  - (B) that in order to comply with Schedule 3, this Agreement shall be published in full on the Contracting Wholesaler's website.
13. No variation of this Agreement shall be effective unless it is in writing and signed by or on behalf of each party.
14. In the event of a conflict between this Agreement and the Contract, the terms of the Contract shall take precedence.
15. The parties do not intend any third party to have the right to enforce any provision of this Agreement under the Contracts (Rights of Third Parties) Act 1999 or otherwise.
16. Any notices under this Agreement shall be served in accordance with the provisions of the Contract.
17. This Agreement is the entire agreement between the parties, and replaces all previous agreements, representations, and understandings between them, relating to its subject matter whether written or oral.
18. This Agreement and any non-contractual obligations arising in connection with it (and, unless provided otherwise, any document entered into in connection with it) are governed by and construed in accordance with English law. Without prejudice to the rights of the Authority, the English courts have exclusive jurisdiction to determine any dispute arising in connection with this Agreement (and, unless provided otherwise, any document entered into in connection with it), including disputes relating to any non-contractual obligations.
19. The Contracting Wholesaler reserve the right to reduce the "Discounted amount" on 30 days' written notice to the Contracting Retailer.

This Schedule 3 Alternative eligible credit agreement has been entered into on the date stated at the beginning of this document.

Signed by

for and on behalf of

Yorkshire Water Services Limited

.....

Director/Authorised Signatory

Print Name:.....

Date:.....

in the presence of:

Witness Signature:.....

Print Name:.....

Address: .....

Date: .....

Signed by

for and on behalf of

[RETAILER]

.....

Director/Authorised Signatory

Print Name:.....

Date: .....

in the presence of:

Witness Signature:.....

Print Name: .....

Address: .....

Date: .....

**yorkshirewater.com**

Yorkshire Water Services Limited, Western House, Halifax Road,

