



Credit Committee Closure Report

Meeting Name:	Panel Meeting (P50)
Paper Number:	P50_07
Meeting Date:	15 December 2020
Purpose of Paper:	Decision
Classification:	Public
Synopsis:	This paper sets out the Credit Committee's remit and the work it has carried out to fulfil that remit as well as how any future work that may be undertaken.

RECOMMENDATION:	The Panel is invited to: <ul style="list-style-type: none">• APPROVE this Credit Committee Closure Report; and• AGREE the route for future work to be by Sub-Group.
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1. Background

On 19 January 2018, Ofwat released a [press notice](#) that it had launched a review of the market codes which set out the credit requirements for Retailers in the business retail market, which had opened in April 2017. It appointed KPMG to lead on the review by producing a report.

As it stated in [Ofwat review of credit arrangements in the business retail market](#) (15 June 2018):

“The aim of the review was to establish whether the current arrangements create undue and unfair barriers to entry. We were particularly concerned to understand how the current arrangements affected smaller new entrants, and whether there were any areas of the current arrangements that could be clarified or improved, to the benefit of the market.”

In its review Ofwat set out the recommendations from KPMG’s final report which identified some of these to be taken forward by the Panel. Having had an initial discussion with the Panel in May 2018, Ofwat then outlined the priorities for the Panel to focus on.

This led the Panel to create the Credit Committee to take this forward as set out in its Terms of Reference (ToR).

2. Credit Committee and its Terms of Reference

At the Panel Meeting (P22) on 28 August 2018, the Panel agreed the Credit Committee’s Terms of Reference (ToR) and appointed five Wholesaler and five Retailer Credit Committee Members.

The ToR sets out its remit in its Overview.

“On 15 June 2018 Ofwat published the results of its review of credit arrangements for the non-household retail market, which it had commissioned KPMG to undertake in December 2017. The review sought to establish whether the current arrangements create undue and unfair barriers to entry, in particular how they affect smaller new entrants, and whether any areas could be clarified or improved.

KPMG made a number of recommendations, described as proposals, for areas of work for the Panel to take forward which Ofwat has supported.

These KPMG proposals are:

- Proposal 1: Ensure greater transparency of PCGs and alternative credit arrangements;
- Proposal 2: Reflecting payment history in order to access an unsecured credit allowance;
- Proposal 4: Clarifications around credit assessment scores;
- Proposal 5: Review of termination, default and interim supply processes; and
- Proposal 8: Pooled credit models.

Ofwat has asked the Panel to focus on:

- Taking forward the transparency aspect of the PCG and Schedule 3 alternative credit arrangements-related proposal with a future request for the Panel to gather evidence



and to assess whether all retailers are able to compete, specifically whether associated retailers are deriving an unfair advantage from PCGs (Proposal 1).

- Recommendations that relate to the use of credit scores and unsecured credit allowance for payment history potentially packaging these together given the interdependencies (Proposals 2 and 4).
- Taking forward work relating to the timelines for default and termination following initial testing of interim supply processes by Ofwat and MOSL (Proposal 5)."

In its Objectives and Principles the ToR set out that:

"The purpose of the Credit Committee is to best manage the areas of work on improving the credit arrangement set out by KPMG and supported by Ofwat for the Panel including its committees to take forward."

A further change to the ToR was approved at Panel Meeting (P38) on 10 December 2019. The Proposer of CPW079 Protections for Credit Support Security, Castle Water modified their Change Proposal to withdraw Part B on the understanding that the Credit Committee would consider the issues relating to that part of the Change Proposal and the general issue of the security of Retailers' credit support which the Change Proposal was seeking to resolve. This led to the following addition to the Objectives and Principles:

"Following the publication of CPW079, the purpose of the Credit Committee is to include in its work on improving the credit arrangements the issue of security of Retailers' credit support funds and consideration methods of ring-fencing them as well as of the creditworthiness of Wholesalers."

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3. Credit Committee Change Proposals

The Credit Committee has taken forward the areas of work to improve the credit arrangements in the business retail market by developing and proposing Change Proposals.

Proposal 1: Ensure greater transparency of Parent Company Guarantees (PCGs) and Alternative Credit Arrangements (ACAs)

[CPW052 – Improving the transparency of Alternative Credit Arrangements](#) was implemented on 29 March 2019. It seeks to improve the level of transparency of Guarantees between Wholesalers and Retailers in the market and improve market confidence regarding the use of Guarantees by requiring Wholesalers to notify Ofwat and MOSL of its ACAs and for MOSL to publish them on its website.

[CPW057 – Improving the transparency of Credit Guarantee Arrangements](#) was implemented on 30 September. It seeks to improve the level of transparency of Guarantees between Wholesalers and Retailers in the market and improve market confidence regarding the use of Guarantees by requiring Retailers to provide the details of the Guarantee and a signed declaration, that the Guarantee is at arm's length and the requisite details have been sent to Ofwat, to MOSL for it publish on its website.

However, in approving the Change Proposal, Ofwat stated that, whilst an improvement to the existing situation, it did not go far enough in providing sufficient transparency for the market to operate efficiently. Therefore, it requested the Credit Committee to carry out a further review of



the extent of the commercial sensitivity attached to the publication of the full details of all Guarantees, including costs, considering solutions to allow for the terms of such Guarantees to be made available without compromising the commercial sensitivities associated with the information.

Proposal 2: Reflecting payment history in order to access an unsecured credit allowance

[CPW061 – UCA reflecting payment history](#) was rejected by Ofwat on 27 November 2020. It sought to introduce a new route for Retailers looking to gain an Unsecured Credit Allowance (UCA) with their Wholesalers based on Payment Performance. A new proposed and alternative solution to CPW061 were resubmitted to the Authority on 1 April 2020. This follows the Change Proposal being returned by Ofwat to revise and re-submit a Final Report responding to Ofwat's issues in September 2019.

Proposal 4: Clarifications around credit assessment scores

[CPW060 – Clarifying credit scores and ratings for the purpose of UCAs](#) was implemented on 30 September 2019. It seeks to improve the process by enabling Retailers to choose their credit scores or ratings as well as enabling Wholesalers to apply amended credit scores or ratings where they have not been notified of a credit downgrade.

Proposal 5: Review of termination, default and interim supply processes

[CPW080 – Simplification of the Default and Termination Process](#) is awaiting decision by Ofwat. It seeks to clarify the termination provisions and improve and simplify the default provisions.

4. CPW079 Issue 1

Following the approval of CPW079, the Credit Committee's remit was extended to include the issue of security of Retailers' credit support funds and consideration of methods of ring-fencing them as well as of the creditworthiness of Wholesalers. It was asked to consider these issues and report its findings to the Panel. The presentation of the Issues 1 Findings Report to the Panel concludes this work.

5. Acknowledgements

MOSL, as the Panel Secretariat, would like to thank the Committee Members and their Alternates that have contributed to the work of the Credit Committee.

Credit Committee Members:

- Lee Austin - Wholesaler (United Utilities)
- Richard Berger - Wholesaler (Severn Trent Water)
- Matt Labrum – Wholesaler (Southern Water)
- Richard Spencer - Wholesaler (Anglian Water Group)
- Julian Tranter - Wholesaler (Thames Water)
- Scott Christie - Unassociated Retailer (Clear Business Water)
- Chris Milner – Associated Retailer (Water Plus)



- Richard Moore – Unassociated Retailer (Castle Water)
- Neil Pendle - Unassociated Retailer (Waterscan Ltd.)
- Jacob Tompkins - Unassociated Retailer (The Water Retail Company)
- Dan Mason - Ofwat Representative

Alternate Members:

- Mark Fenner - Wholesaler (Thames Water)
- Sean Webster - Wholesaler (Thames Water)
- James Wilson – Wholesaler (Yorkshire Water)
- Christopher Wright – Unassociated Retailer (Castle Water).

6. Route for Future Work

Two areas of work for the Committee for the future are:

- CPW057 - Further review of Guarantees to allow for the full terms of Guarantees to be made available.
- Proposal 8: Pooled credit models from KPMG’s recommendations.

It is proposed that these areas are taken up by a new Sub-Group (or Sub-Groups) to provide more flexibility. A Sub-Group could also manage Change Proposal CPW080 or parts of it if it is sent back for further assessment.

The timescales for considering Proposal 8 according to the Panel Plan are no earlier than next financial year, 2021/22. The same timeframe is anticipated for the CPW057 Guarantee review. However, if those Change Proposals awaiting decision by Ofwat are sent back before then that may bring this forward.

7. Recommendation

The Panel is invited to:

- **APPROVE** this Credit Committee Closure Report;
- **AGREE** the route for further work to be by Sub-Group.