

## Wholesale Retail Code Change Proposal – Ref CPW093

<b>Modification proposal</b>	Authority Timetabled Change Proposal: Wholesale Retail Code Change Proposal – CPW093  Interim deferral of wholesale charges
<b>Decision</b>	The Authority has decided to approve this Change Proposal
<b>Publication date</b>	27 March 2020
<b>Implementation date</b>	30 March 2020 at 08:00

### Background to this Change Proposal

The business retail market faces a number of pressing issues as a result of the 2020 Covid-19 pandemic. In particular, Retailers in the business retail market face being impacted by both a reduction in demand for water by their customers and a number of business customers being unable to pay their bills on time. This reduction in revenue creates a cash flow issue for business retailers because they are still required to pay Wholesalers primary charges under the current market arrangements.

To address this urgent issue, the Authority proposed this Change Proposal that seeks to provide an interim solution to the immediate cash flow challenges faced by Retailers. There are three aspects to this Change Proposal. It:

- i) defers payment by Retailers to Wholesalers of a percentage of payments invoiced but not yet due in March 2020, and from Settlement in April and May 2020. Retailers will be required to pay at least 50% (or a percentage otherwise to be determined by the Authority) of the charges that are due in these months, ensuring that liquidity and cash flow remain in the market, while reducing the burden on Retailers in the immediate term;
- ii) obliges Retailers, to the extent that they are in receipt of payment from their own customers, and can finance their own costs, to pay as much of the deferred charge as they are able, notwithstanding the amount actually invoiced; and
- iii) includes provisions specifying that provided a Retailer has paid at least half of amounts due to a Wholesaler in March by the due date, it will be

deemed to have paid everything by that date for the purposes of Alternative Eligible Credit Support arrangements.

The associated documents relating to this Change Proposal can be found on the [MOSL website](#).

Our intention is that by the May 2020 settlement runs a more enduring solution to address the issue of late payment (for the period of Covid-19 pandemic) will be in place. Inclusion of the May settlement run in this code change is therefore a just a backstop.

## **Panel recommendation**

The Panel considered this Change Proposal at an urgently convened meeting on Friday 27 March 2020. It recommended, by majority decision, that the Authority approve this proposal. This recommendation has been made on the basis of improving the principles of Proportionality and Simplicity, cost-effectiveness and security. The recommended date of implementation is at 08:00 on Monday 30 March 2020.

## **Our decision**

We have concluded that the implementation of CPW093 will better facilitate the principles of the Wholesale Retail Code as detailed in Schedule 1 Part 1 Objectives, Principles and Definitions and is consistent with our statutory duties.

## **Reasons for our decision**

The Covid-19 pandemic and the restrictions placed on the movement of people and operation of businesses, is resulting in a number of business customers being unable to pay their bills on time. This reduction in revenue creates a cash flow issue for business retailers and in the longer term could create levels of bad debt that are significantly higher than those assumed in the current market arrangements.

This code change seeks to provide an interim solution to the immediate cash flow challenges faced by business retailers. For this reason, we consider that this modification meets the Proportionality principle, insofar that it is an interim solution and ensures that the impacts borne by wholesalers and retailers respectively are proportionate. We also consider that the modification furthers the principle of Simplicity, cost-effectiveness and security in that it temporarily supports the effective functioning of the business retail market given the impacts of the Covid-19 pandemic.

With this interim measure in place, the Authority will work closely with MOSL and other stakeholders to develop a medium term solution to the liquidity issues currently facing the non-household sector. Our intention is to implement this solution by the end of April.

We will also develop a longer-term solution to unwind the cash flow impacts of the Covid-19 pandemic, including 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). This will be developed as soon as possible and will require consultation with the sector.

The following principles have and will continue to guide our decision making on this:

1. We want to protect the interests of all customers, maintain the provision of essential services and support the effective functioning of the business retail market.
2. Where customers are able to pay on time we expect retailers to continue to collect charges and to use these to fund the payment of wholesale charges. We do not expect retailers to hold onto money where this can be used to fund wholesale charges – so if retailers are able to pay more than 50% of wholesale charges in March or April, then they must do so. We are currently considering whether to require further financial information from retailers that would enable tracking of cash flows from customers and to wholesalers.
3. Where it is clear that customers cannot pay on time for reasons relating to Covid-19, we do not expect retailers to chase payment or disconnect customers. Changes we are proposing to make to the Customer Protection Code of Practice will prohibit retailers from charging customers interest for late payment, and prohibit requests for disconnection, where this is a result of Covid-19.
4. Business retailers are compensated for 'normal' levels of bad debt risk in the margins allowed under the REC. This level of risk should reside with retailers as they are best placed to manage it.
5. The Covid-19 pandemic is very likely to lead to levels of bad debt that materially exceed the 'normal' levels already compensated for in the REC. We recognise that this is a real concern for both retailers and wholesalers as it could threaten their financial resilience. The longer term solution we develop will deal with the cash flow impacts of the Covid-19 pandemic and address levels of bad debt that exceed 'normal' levels of bad debt that business retailers are already compensated for. In developing this longer term solution we will ensure that, consistent with (1) above, the cost of additional bad debt is appropriately shared and that Trading Parties are appropriately compensated.

This change proposal and our decision have both been informed by the results of a recent call for inputs, which will also inform the medium and longer term solutions referred to above.

## **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**