Liquidity and bad debt consultation
Response from The Water Retail Company

The Water Retail Company (TWRC) is a small independent retailer operating in Scotland, England and Wales. We have a small niche customer base, which is mainly in the leisure and tourism sector. We have a large number of holiday parks as customers. We have found the market challenging since opening, this is mainly due to onerous and, in our view, unfair credit support requirements; having to pay VAT to wholesalers when clearly we do not fit into a category that should be paying VAT on water; and the structure of billing within the market which does not take into account seasonality. As a result we have faced constant liquidity challenges, however we have taken measures to improve our resilience and put in place things like trade credit insurance to ensure we can always pay wholesalers. We also run our business without charging our customers any deposits and not charging them in advance. As a result we are well placed to meet the challenges associated with Covid-19 and do not require any new measures to help with liquidity. We will not be using any of the proposed liquidity measures and will pay all wholesalers in full and on time. We have sympathy for other retailers who may be in a different position, but we have received no help from regulators in the challenges we have faced and do no see why our competitors should be bailed out. Once the current situation is over, we expect the regulator to look at a number of fundamental changes. Firstly we would like a review of the billing structure, surely rather than the current model it would be better to sort out metering and bill on actual usage? Secondly retailers should not have to pay VAT which would increase market liquidity by 10%. And thirdly we expect a review of the credit support process, as if we are able to pay in full and on time during this crisis why should be not we eligible for a large discount in credit support with all wholesaler?

In our view prudent retailers should have taken out trade credit insurance and considered the potential for non-payment from a large portion of their customer base, they should be constantly assessing the credit risk of their customer base and should have ensured sufficient liquidity. We do not want to see any bail-outs or liquidity support for retailers and we do not wish to contribute to any shared costs of any such support. Nor do we think that wholesalers should have to provide support for retailers who have not put adequate provision in place.

TWRC has taken a prudent approach by purchasing trade credit insurance. The insurance covers non-payment by customers or indeed late payment with the insurer providing funds to cover non payment within four days.

This provision means that TWRC has prepared for the worst case scenario and can continue to trade even if our largest customers default. The insurance negates the risk to wholesalers as they will be paid before the regulated invoice date without the consequent risk of failure of the retailer. If wholesalers call on other forms of trade credit insurance there will be risk of retailer collapse as the guarantees will only be available once.

Companies that have taken out insurance will not therefore add to a bad debt burden on the marketplace and should therefore not be liable for the bad debt of companies that have failed to manage their risk profile.

TWRC would strongly oppose any mechanism that cross subsidises companies that have failed to manage risk. TWRC does not believe that the margins available are high enough to meet sustained market turmoil and if the retailers are to assume almost a hundred per cent of the risk of bad debt then the margins should reflect this risk.

The application for trade credit insurance has been proven, in the present crisis to have provided a provision against bad debt and liquidity, and this should be recognised as the most effective provision against bad debt and liquidity issues. Retailers could be required to insure if possible. The cost could be met by reducing credit provision that has to be provided to wholesalers.

With regard to vacancy and YVE variations we have been discussing this with our customers since the beginning of March and we have bilaterally agreed a mechanism for both vacancy and YVE adjustment with our customers and with wholesalers.

Sorry for the rather hurried response to the consultation, and for any typos or grammatical errors, but the timescale was short and we are very busy helping our customers. if you have any questions please contact:

[redacted]

Our response to the specific consultation questions are in bold below.

Consultation question 1: Do you agree with these objectives as set out, which will guide our decisions about what are the preferred options?

These seem reasonable.

Consultation question 2: Excluding customers with temporary vacancy flags, what percentage of remaining wholesale charges are you currently able to recover from customers each month? Please explain why these customers, who are still open for business, are late paying (or not paying in full). Please also provide evidence to support your response.

We intend to pay all wholesaler invoices on time and in full.

Consultation question 3: Please explain how you expect your response to question 2 to change over the next month or two.

We intend to pay all wholesaler invoices on time and in full for the next 3 months, if the impact on our customer base continues beyond this we will review the situation, but it is our intention to continue to pay on time and in full for the foreseeable future.

Consultation question 4: Which option for dealing with the remaining liquidity gap facing business retailers do you think would be in the best interests of customers, the market and best reflects the objectives we are trying to achieve? Please explain your view and provide supporting evidence.

We have faced a liquidity gap since the opening of the market,. The structure of the market, the Codes, and the way wholesale bills are calculated and charged is over complex, inflexible and harmful to the market. We deal with seasonal businesses but the way wholesale bills are calculated does not take this into account which means we are faced with massive seasonal shortfall or we have to pass this variability on to our customers. We have been saying since the market opened that we would like a system whereby we are billed for the actual usage of our customers, however nothing has been done. Likewise when we have asked for seasonality to be accounted for we have been told that the models cant do this. Therefore we have had to adapt our business model and increase our reserves to cope with the liquidity gap. The current crisis has merely highlighted what we face all the time. At present we do not need any help in meeting this liquidity gap as we have sorted it out ourselves and are therefore fairly resilient to the current circumstances. However, it is interesting that this issue is now bing taken seriously when wholesalers and incumbent retailers are being affected.

Therefore we shall not want or need any liquidity support, and we do not wish to share the costs of liquidity support provided to other retailers.

Consultation question 5: How should we determine the financing costs associated with any liquidity provided by wholesalers? Please explain your view and provide supporting evidence.

We shall not want or need any liquidity support. We do not wish to have to contribute to any liquidity support provided to the market.

Consultation question 6: Do you agree that the financing costs associated with any liquidity provided by wholesalers should be borne by retailers? Please explain your view and provide supporting evidence.

We shall not want or need any liquidity support. We do not wish to have to contribute to any liquidity support provided to the market. If liquidity support is provided then the retailers who use the support should pay for that support.

Consultation question 7: Do you agree that retailers should receive liquidity support at least to the end of July 2020? And that all additional liquidity provided by wholesalers should be repaid by the end of December 2020?

We shall not want or need any liquidity support. We do not wish to have to contribute to any liquidity support provided to the market. We have no view on the length of time liquidity support is provided. We have put in place measures to ensure we are resilient and we have put in place trade credit insurance for our main customers to ensure we can always pay what is owed to wholesalers, why are other retailers being bailed out beyond the wider measures put in place by the Government?

Consultation question 8: Should retailers incur all bad debt costs from non- household customers defaulting or should some of these costs be recoverable beyond a pre-determined threshold?

We do not envisage having any bad debt and if we do then this will be met by our trade credit insurance. Our insurance company checks the credit status of all of our main customers. In our view retailers should incur all bad debt costs.

Consultation question 9: If bad debt costs from non-household customers defaulting should be recoverable beyond a pre-determined threshold, then do you agree that retailers should expect to manage all bad debt costs up to 2% of their turnover, or the level of bad debt from their most recently audited level +1%, whichever is the greater?

We do not believe they should be recoverable

Consultation question 10: Where bad debt costs from non-household customers defaulting exceed a predetermined threshold, should these costs be shared between retailers and non-household customers, and in what proportion, or should they be born wholly by customers? What relevant precedents are there (including in other sectors)? Please explain your response and provide supporting evidence.

The Water Retail Company and our customers should absolutely not share any costs associated with other retailers' bad debt, we have had to develop resilience in a hostile market and if our competitors have not done the same then thats their responsibility. Many of our competitors already have what we conducer to be an unfair advantage through the use of parent company guarantees for their credit support, they should not be bailed out in any way, in our view they can use the same parent companies to support them.

Consultation question 11: Do you do you agree there is a case for protecting wholesalers from the bad debt exposure associated with the liquidity measures? To what extent do you think the wholesale price control mechanism provide sufficient protection to wholesalers for Covid-19 related bad debt? Do you think we should amend the totex sharing factors or introduce a cap – for example, a proportion of wholesaler business market turnover?

This is an issue for wholesalers and regulators, we have no view other than we do not want ourselves or our customers to pay for this protection.