

## Measurement

- 1. Our initial view is that we consider it is relevant to measure customer bad debt costs that may arise for Retailers solely in terms of amounts due from customers that are appropriately provided for or written off. To what extent do you agree with our initial view here?**

We do not think that measuring solely in terms of amounts due that are provided for or written off would provide a complete measure for example, debt less than a year old is not wholly provided for.

- 2. To what extent do you consider that bad debt costs may have differed by geographic region and/or by customer type?**

The impact of Covid-19 is dependent on a number of factors including regional lockdown and industry group – potentially worse in tourist areas and leisure industry as well as size – the impacts appear worse for smaller customers.

- 3. What is your view on the best approach to measure bad debt costs arising, in ways that are objective, consistent and verifiable?**

The best approach would be to use Total outstanding aged debt (prior to write off)

- 4. Do you agree that Ofwat should allow Retailers to determine the basis on which they report bad debt costs (provided that it complies with relevant accounting standards)? Alternatively, should Ofwat set out a more prescriptive and defined basis for the determination and reporting of bad debt costs? Please set out the basis for your view or conclusions.**

It would seem pragmatic to allow retailers to determine the basis of reporting to fit the for which it was being used.

- 5. (a) What is your view on the period over which we should be measuring bad debt costs arising, (b) What in your view is the appropriate time interval following this for the measurement of bad debt costs?**

Debt could take over a year to be a significant cost to the business and at only that point the true risk of non-recovery is known although the potential becomes known earlier.

- 6. What is your view on the change in and/or scale of bad debt costs likely to arise since March 2020? Please provide evidence to support your views, for example concerning metrics on changes in the number of customers with payment difficulties or payments in arrears .**

The risk is new bad debt risk relating to covid has not yet occurred

## Regulatory response

- 7. Do you agree that these are the right objectives for considering whether and how to amend regulatory protections in relation to bad debt costs?**

Yes, protecting customers' interests, promoting efficiency and providing clarity and minimising implementation costs are sensible objectives.

- 8. Do you have views about the merits of enabling the recoupment of (some portion of) excess bad debt costs via amendment to the REC? Do you have any comments or views about the practical implementation of such an approach?**

- 9. Do you have views about the merits of enabling the recoupment of (some portion of) excess bad debt costs through wholesale charges?**

- 10. Concerning the option of recoupment of (some portion of) excess bad debt costs through wholesale charges, do you have comments or views about the costs for trading parties of implementing such an approach? Do you have comments or views about the practical implementation of such an approach? Do you have any comments about a possible application process and the data and audit requirements to accompany this?**

- 11. Aside from amending the REC or recovery through the wholesale charges, do you have any views on whether other mechanisms or approaches to amending regulatory protections may**

***be appropriate? If yes please describe your preferred approach and your view of why it may be warranted.***

Answer to Qs 8-11 These questions were explored in the webinar and we can see the merits of increasing the price caps. We also agree with Ofwat's assessment that designing a mechanism to pass the costs through to the wholesale controls would not be straightforward and appears to be a solution with non-trivial costs but will, of course, be willing to work with Ofwat on any solution proposed.

***12. What is your view of the appropriate timing for the measurement and recovery of (a portion of) any excess bad debt costs?***

We can see the merits of the timetable proposed recognising that charges are set annually.

***13. Do you agree that it makes sense to 'pool' recovery of (some portion of) excess bad debt costs across customer groups and/or regions?***

The pooling suggested, using the three size bands and the wholesaler area seems the most practical solution.

***14. Where excess bad debt costs exceed 2% of turnover on an industry wide basis in your view, how should such excess bad debt costs be shared between Retailers and customers?***

The three factors that you are minded to use to inform sharing parameters (set out on page 28) are not unreasonable.