

Call for inputs business retail market customer bad debt

South East Water response

21st January 2021

South East Water
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1. Introduction

This paper sets out South East Water's (SEW) response to Ofwat's Call for inputs business retail market customer bad debt. This document includes responses to the 14 questions outlined in the aforementioned consultation.

Any queries in relation to this document should be sent to:

[REDACTED]

2. Answers to questions/ response

- 2.1. Q1: 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?**

A1: We agree that the methodology for valuing the bad costs would be on this basis. Although difficult to measure and audit, additional debt collection costs incurred in trying to recover these bad debt costs should be considered.

- 2.2. Q2: To what extent do you consider that bad debt costs may have differed by geographic region and/or by customer type?**

A2: We have no opinion on this as a wholesaler, but it is possible that certain regions may have been affected with longer regional restrictions. Most definitely some sectors will be effected more than others.

- 2.3. Q3: What is your view on the best approach to measure bad debt costs arising, in ways that are objective, consistent and verifiable?**

A3: SEW has always used Aged Cash analysis to assess the trends and risks of bad debts arising. However, identifying a bad debt associated with Covid would be difficult to assess from a non-Covid bad debt. Therefore assessing the debts at that time associated with businesses that have failed during the pandemic would be a good starting point.

- 2.4. Q4: 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.**

A4: SEW's view is that retailers should have the flexibility to set their own bad debt policies provided that it complies with relevant accounting standards. However, in assessing the recovery of excess bad costs OFWAT's option of using a non-statutory accounts basis would be more robust and less open to abuse. Although this would be an additional administrative burden.

- 2.5. Q5: 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?**

A5: In our view this depends on the length of the economic recovery for the UK following the end of the pandemic as businesses may not be financially able to resume once restrictions are lifted. (b) No comment as not directly affected.

2.6. Q6: 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.

A6: As a wholesaler we cannot comment on this.

2.7. Q7: Do you agree that these are the right objectives for considering whether and how to amend regulatory protections in relation to bad debt costs?

A7: We agree with the objectives set out that some recovery of excess bad costs is reasonable over a period of time and agree that this should not affect household customers.

2.8. Q8: 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?

A8: Amending the REC would have no impact on SEW as a wholesaler and therefore we would be open to this option.

2.9. Q9: Do you have views about the merits of enabling the recoupment of (some portion of) excess bad debt costs through wholesale charges?

A9: - As a wholesaler we would not encourage this, as this involves additional complications to wholesaler charges, including recoup and reimbursement mechanisms as well as ensuring that the uplift is not reported as additional revenue to wholesalers. We would encourage any adjustment to be made in retail charges

2.10. Q10: 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?

A10: See comments per Question 9

2.11. Q11: 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.

A11: No comment

2.12. In regards to the timing of measurement, we feel the affects of bad debt due to Covid would be longer than just considering the 2020/21 as a measurement period, as set out in our answer to question 5(a). Timing of recovery, through the determination of the excess bad costs during 2021/22 could prove challenging to retailers where the full extent may not be fully realised. But the outline timetable is reasonable in assisting the retailers to recoup their financial losses in a reasonable timeframe.

A12: In regards to the timing of measurement, we feel the affects of bad debt due to Covid would be longer than just considering the 2020/21 as a measurement period, as set out in our answer to question 5(a). Timing of recovery, through the determination of the excess bad costs during 2021/22 could prove challenging to retailers where the full extent may not be fully realised. But the outline timetable is reasonable in assisting the retailers to recoup their financial losses in a reasonable timeframe.

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

A13: No comment

2.14. 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?

A14: No comment

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