

Dŵr Cymru response to the March 2021 Business retail market: Customer bad debt – Consultation

We welcome Ofwat's consideration of the issues set out in 'Covid-19 and the business retail market: Proposals to address liquidity challenges and increases in bad debt – a consultation.' We provide a brief response below in our capacity as a provider of both wholesale and retail services to non-household customers in our supply area (being wholly or mainly in Wales).

However, since the market for retail services in our supply area is largely not open to competition (except for the small minority of customers whose annual consumption is above 50 megalitres), we remain the supplier of both retail and wholesale services to most non-household customers. As such, although our exposure to the risks created by the impact of Covid-19 are essentially the same as those facing retailers in the market, the regulatory mechanisms by which those risks manifest themselves are somewhat different in our case.

While as a wholesaler we are only minimally exposed to the risk of retailer default, we are significantly exposed as a retailer to the risk of higher levels of bad debt that emerges as a result of non-payment by customers. As we have previously discussed with Ofwat, our non-household retail division has voluntarily put into place the same measures to protect our customers that were implemented by Ofwat under the recent code changes in March, including suspension of any moves to disconnect non-paying customers. This has naturally reduced our ability to manage the level of bad debt in exactly the same way as it has for the retailers in the market.

Any resulting increase in bad debt will be manifest in an increasing bad debt charge in our non-household retail business. (Obviously, there is no totex cost sharing mechanism for our retail businesses.) As a consequence we believe that the same protection mechanism for retailers' bad debt exposure from non-household customers that is to be implemented following the current consultation should also be applied to Welsh Water's non-household retail business. This raises the same questions as to whether any costs of bad debt above a threshold should be borne in full or in part by customers, and if so, which customers and over what period. We would welcome further engagement with Ofwat on these issues in due course, as the mechanism for retailers in the market is being finalised.

In relation to changes in demand and revenue, we would like to highlight that the level above which variances between forecast and recovered revenue in the Revenue Forecasting Incentive (RFI) mechanism are subject to a penalty above a level of 2%. It seems inappropriate to us for this penalty mechanism to be applied in the wholly unexpected context of the level of demand variations which are likely to result for non-household customers during the Covid-19 emergency.

We look forward to further engagement with Ofwat on these particular issues which apply uniquely to Welsh Water, in parallel with the process to resolve the required market mechanisms, of which we are fully supportive.