# Annex 2 – Consultation questions

**Section 2 – Customer bad debt costs: the 2% threshold**

**Consultation Question 1. Our analysis on the basis of data available to date suggests that market-wide customer bad debt costs have, or are likely to, exceed 2% of total NHH revenue. What is your view concerning likely outturn bad debt costs for the year 2020/21 and into 2021/22?**

We cannot comment directly upon the impact of the pandemic on NHH debt.

As a wholesaler and based on our HH customer data, cash collections of current (<1 year old) have remained steady. However, we note that this has required incremental recovery efforts and we have also seen an increase in levels of personal bankruptcy and more challenges in recovering amounts which were already in arrears at the time of the pandemic This indicates that, in our opinion, the government measures employed have been effective in supporting economic conditions. However, some of this favourable cash position could be due to our HH customers having more disposable income due to tourism, leisure and entertainment establishments being closed and we recognise that there is a demographic of NHH customers who are suffering from financial distress. We remain concerned about the wider impact when furlough and other support packages cease.

Extrapolating this experience to the NHH customer base is more challenging and there is likely to be significant variability in bad debt cost depending on the mixture of different types of NHH customer. Therefore, we conclude that the levels of bad debt will need to be reflective of the profile by size and sector of the NHH customer. There is most likely to be a mix of instances when debt will be unaffected or will be in excess of 2%. There is also a high degree of uncertainty in relation to 2021/22 outturn.

**Consultation Question 2. To what extent do you consider that lower consumption customers have been affected more significantly by Covid-19 measures resulting in a potentially larger rise in bad debt costs, relative to larger consumption customers?**

This would depend on the industry of that NHH customer and how impacted they have been by COVID and lockdown measures. We don't think it would be appropriate to solely compare the customers vulnerability to bad debt based on consumption levels.

**Section 4 – Timing issues**

**Consultation Question 3. Do you agree that it is likely that the impacts of the pandemic, and possibly increases, in bad debt costs will continue to accrue during 2021/22 and possibly beyond?**

Yes, the impact of COVID bad debt should be monitored for the entire life cycle of the debt. Also as noted above the economic impact, once economic support measures are withdrawn, is highly uncertain.

**Consultation Question 4. Do you agree that, since bad debt costs may take time to manifest, there is merit in using available Retailer accounting data to estimate an initial revision to regulatory protections, followed at a later stage by a 'true up'?**

Yes. However, the bad debt policy of each Retailer should be assessed to ascertain a consistent approach.

**Consultation Question 5. Where we revise any regulatory protections, we are minded to implement them such that they take effect from April 2022. We note that an alternative, basing any revisions on the basis of currently available data, could take effect from October 2021. Do you agree with our minded to position? Please explain your answer.**

There is clearly a balance to be made between relieving retailers of the impacts they have already suffered and having greater certainty about the overall impact of the pandemic on bad debt levels.

Provided that the impact upon bill levels can be managed we would support an earlier implementation (October) with subsequent true up if needed.

**Section 5 - Mechanism to recover costs from customers**

**Consultation Question 6: Do you agree with our presented 'minded to' view that amendment of REC price caps is the approach that best meets our objectives concerning customer bad costs?**

Yes

**Consultation Question 7: Do you agree with our assessment of the options for revision of regulatory protections?**

Yes

**Section 6 – Sharing parameters**

**Consultation Question 8. If market-wide bad debt costs are 3% or lower, we propose Retailers and NHH customers should each be expected to bear 50% of excess bad debt costs. If market-wide bad debt costs exceed 3%, we propose Retailers should be expected to bear 25% of excess bad debt costs and NHH customers 75%. Do you agree this proposal meets our Business Retail Market: Customer Bad Debt - Consultation 55 stated policy objectives? Please explain your position and provide supporting evidence (including evidence on costs of recovering bad debt from customers).**

We feel that this appears to be a balanced and proportionate position in order to share the impact between those well placed to manage debt and those benefiting from markets.  to .

**Section 7 - Approach to adjusting REC price caps**

**Consultation Question 9 – Do you have views concerning the approach to setting the revision of the REC price caps with respect to excess bad debt costs?**

No.

**Consultation Question 10. How in your view should efficient finance costs of bad debt be defined and estimated where we make an allowance for efficient working capital costs?**

OFWAT should define an efficient cost of bad debt – in the same way that an efficient cost of debt is calculated.

**Consultation Question 11. Do you agree that there is merit in enabling recoupment of (a portion of) excess bad debt costs in two 'pools'; one relating to customers with annual consumption below 0.5Ml, and another for customers with annual consumption 0.5Ml to 50Ml? Or should we pool bad debt arising from both groups of customers and calculate an average uplift to the price caps across this combined group? Please explain your answer.**

In our experience, Retailer target specific groups of customers and we feel that these most probably would lie within either of those groups.  For that reason, we see that segregation of the debt position would be more appropriate.

**Consultation Question 12. Do you have views concerning the data and information Ofwat intends to seek with a view to enabling the setting of adjustments to the REC price caps?**

The data should be harmonised so that bad debt metrics are consistent within the sector.

**Consultation Question 13. What are your views about the time horizon over which any amendment to the REC price caps made in respect of excess customer bad debt costs should apply? Do you agree that there is merit, in adjusting REC price caps, both to committing to such adjustments enduring for at least two years, and that such increases should be attenuated to minimise potential price rises for customers?**

We believe that the time horizon should be aligned to balance the impact on retailers and customer bills.