<u>The Water Retail Company Response to Bad Debt Consultation</u>

We have answered the consultation questions below. However, we do not agree with the general premise of the consultation. We do not have any bad debt and are unlikely to have any going forward. In addition we have taken out trade credit insurance to protect us against bad debt, and we lassie closely with our customers to ensure bad debt does not arise, other retailers should have taken a similarly prudent approach. We do not think Ofwat should take an action in this area. We believe that individual retailers should bear the full costs of their own bad debt. We strongly object to the cost of bad debt being placed on NHH customers or shared across the market. We also find the numerous consultations and RFIs associated with bad debt to be onerous and a waste of our time.

We do not understand why Ofwat is focussing so much on this issue. There are a number of issues that have a material impact on our business and have raised these with Ofwat but Ofwat have done nothing in these areas of have taken decisions that actively block improvements. We also note that Ofwat have allowed other retailers to fail in the past, therefore ww would like to know the justification and rationale for Ofwat taking action on bad debt. We do not believe this the pf action would occur in other markets. We do not agree with Ofwat taking action in this area and forcing NHH customers to effectively cross-subsidise other retailers. In addition we would object very strongly if any action is taken to try and share bad debt costs across all retailers, including sharing the costs of any administration of schemes.

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?

Our bad debt is likely to be zero for both years. We don't have a view on the bad debt for the market as a whole.

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?

We don’t know, but business sector is probably more important than size.

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?

This will not be the case for us. We don't know for the wider market.

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'?

We don't know. However as we do not have any bad debt and do not envisage having any we would prefer to have as few RFIs as possible on this subject.

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.
We have no view either way. This is not an important issue for our business.

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?

We do not think Ofwat should take any action with regard to bad debt. There are a number of issues that have a material impact on our business such as onerous credit support requirements, VAT payments on water etc, and Ofwat doesn't take action on these issues, in fact it actively blocked MOSL panel proposals that would have helped us with regard to credit support. We have taken out trade credit insurance to offset any impact of bad debts, we also manage our customer relations who that bad debt does not arise, why should other retailers that are not as prudent be bailed out? What is the point of retailers submitting an annual letter of financial adequacy to Ofwat if it doesn't take into account unforeseen events? We do not understand why Ofwat is focussing so much on the bad debt issue, we think that retailers should deal with this themselves and that none of the costs should be passed on to customers or shared across the whole market. We do not agree with any actions that Ofwat is proposing to take in this area, we also find the RFIs and consultations on this issue onerous.

However of all the options proposed the amendment of REC price caps is the one that best meets the objectives.

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

We have no view on this.

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 stated policy objectives? Please explain your position and provide supporting evidence (including evidence on costs of recovering bad debt from customers).

We do not agree with any of this. We do not think that NHH customers should bear any of the costs of bad debt, we think that retailers should bear the full cost of their own bad debt and it should not be shared with customer or across the market. We don't believe this happens in other markets why are you taking action at all?

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?

We think that individual retailers should bear the full cost of their own bad debt.

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?

We have no view on this.

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.

We do not agree there is merit in enabling the recoupment of bad debt from NHH customers, retailers should bear the full costs of their own bad debt.

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?

We do not think there should be any action taken with regard to bad debt. We do not want to have to provide data or information regarding bad debt.

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 do not think that NHH customers should have to bear any of the costs of bad debt. Retailers should bear the full costs of their own bad debt.