United Utilities Water

Response to business retail market. Customer bad debt - consultation

This response relates to the March 2021 consultation “Business retail market. Customer bad debt”.

We welcome the opportunity to provide our views on proposals to address NHH customer bad debt costs recovery. Whilst many of the questions are focussed on retailer activity and experience, and therefore not relevant for United Utilities as a wholesaler, we have responded to the questions where we consider that we are well placed to provide some insight.

We support the efforts to provide retailers with some support in relation to excess NHH customer bad debt and consider these steps necessary to protect retailers, and customers and wholesalers, from the impact of retailer failure. We believe that the support provided to the NHH retail market over the last year by all stakeholders has been greatly positive.

In relation to the proposed solution there remain potential issues that will need to be kept under close scrutiny. It is important that the impact on those customers less engaged in the market is carefully monitored to ensure the fairness of these measures. In terms of support for retailers the use of an average rate, rather than a retailer specific increase, could be questioned if there are significant differences between retailers level of bad debt, either;

- by failing to provide sufficient support to retailers with high levels of bad debt; or,
- retailers who have low levels of bad debt advantaged by cap increase.

It would be expected that the impact on bad debt will vary across the country, as it will across different groups of customers. It would appear prudent to ensure that these differences were closely monitored.

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 are not responding to this question.

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 are not responding to this question.

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?

We are not responding to this question.

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 are not responding to this question.

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 are not responding to this question.

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?

Of the three options considered within the consultation increasing the REC price cap appears the simplest approach. There remain potential issues that will need to be kept under close scrutiny. It is important that the impact on those customers less engaged in the market is carefully monitored to ensure the fairness of these measures. In terms of support for retailers the use of an average rate, rather than a retailer specific increase, could be questioned if there are significant differences between retailers level of bad debt, either;

- by failing to provide sufficient support to retailers with high levels of bad debt; or,
- retailers who have low levels of bad debt advantaged by the cap increase.

Neither outcome would appear to be in the customers' best interest.

The proposed REC cap increase approach only protects customer interests if it provides sufficient support to protect well run retailers. It is not in the interests of any stakeholders of the market for this not to happen. It is unclear if the proposed approach will in reality provide the necessary support to retailers who have experienced retail bad debt costs significantly in excess of 2%. We, given that the proposed approach is relatively novel, accept that there may need to be further iterations of the approach and will continue to work to support the market.

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

We are not responding to this question.

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 are not responding to this question.

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 are not responding to this question.

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 are not responding to this question.

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 are not responding to this question.

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 are not responding to this question.

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 are not responding to this question.