Business retail market Customer bad debt – Consultation: Wessex Response

Overview

We are generally very supportive of your proposed approach.

We are pleased to see that your proposals are to deal with this within the non-household retail market. We think that this is key to the continued independence and legitimacy of the market. Keeping it within the market will enable efficient companies to set more competitive prices and thus aid in the overall evolution of the market.

Our main concern with this is the immediate solvency of the non-household retailers. Retailer failure will not only adversely impact those customers served by the retailer but will impact wholesalers and thus potentially the entire national customer base. To this end we are supportive of immediate action. The key barrier to this is the uncertainty around actual recent consumption, to mitigate this we would like to see incentives reinstated to ensure that meter reads are put into the market and an unwinding of other levers to estimate consumption.

Alongside this we would encourage a review of the solvency tests to ensure that in the short term they are applied with the best interest of all customers in mind.

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?

As a wholesaler we have no view of what NHH bad debt may outturn at.

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 agree with the hypothesis that smaller consumers have been more significantly affected by Covid-19 measures than large. Our large users, such as agriculture and manufacturing have largely continued operations however small users such as shops, cafes & pubs have all been largely closed.

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?

It is clear that we will continue to see the impact of the pandemic through 2021/22 and beyond. The government has set out a timeline that reduces restrictions by June (a quarter of the way through 2021/22) at the earliest. Combined with the uncertain economic outlook once furlough and other government support schemes unwind, we expect to continue to see businesses struggle throughout 2021/22 and even into the following year.

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'?

The main issue is the immediate liquidity of the retailers; therefore, we think an initial estimation is required. An ex post true up could be required if this estimation was significantly out. If there is not a large difference, we do not see value in adding additional regulatory burden.

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.

As above the immediate liquidity of retailers is the key issue. Thus, to alleviate this risk of any NHH retailer failure; which will adversely affect both the NHH retailer customers and the wholesalers; we support intervention as soon as practicable, from October 2021.

We acknowledge that immediate action may cause some issues, however we think that the risk of these is outweighed by the risk of retailer failure.

Additionally, concerns around data can be mitigated by the reintroduction of incentives to read meters and keep the market data up to date. This is key to understanding the true quantum and mitigating the risks around data quality.

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 think it is key that this is a transaction between retailers and their customers and that wholesalers do not play a role. To this end we wholeheartedly oppose the use of wholesale charges to provide this support.

We think the amendment of the REC is the best way to ensure the independence and legitimacy of the market.

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

We agree.

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 think these sharing rates are appropriate and will provide the correct incentives for retailers to continue to pursue debt.

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 have no concerns.

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 think any uniformly applied approach to renumerate efficiently financed bad debt costs would be appropriate.

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 think there is value in this. Some retailers focus more on one customer type than others, and so recoupment across these bands would ensure that those retailers who are more exposed to certain sectors of the market have appropriate protection.

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?

As a wholesaler we have no comment regarding these data requirements.

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?

As we have mentioned before, failure of a retailer will have a much greater adverse impact on customers than modest price rises. Any decision on the timing of this recovery should consider this to ensure that interests of all customers are considered.