

Customer Bad Debt July 2021 Decision and Consultation

Dear Sirs,

Please see below Clear Business Water Ltd's response to the July 2021 consultation on Customer Bad Debt.

1. We are presently minded to 'pool' (the customer portion of) excess bad debt costs across all customers and apply a corresponding uniform uplift to REC price caps. Do you agree with our approach here?

We disagree with this approach. We believe that applying a uniform uplift by pooling all customer excess bad debt costs would disadvantage Retailers that primarily serve customers that fall within a single REC defined customer group. We suggest that applying a varying uplift in price cap to the REC defined customer groups would be a fairer approach as it would allow Retailers to recoup costs proportionate to the excess bad debt accrued by their customer base.

2. Do you see merit in the idea of not pursuing a 'true up'?

Yes. We can see the merit of not pursuing a true up in that it would help to facilitate a solution that is simple to implement and communicate by allowing early decision making. In our view, assessing the true impact of Covid-19 on excess bad debt costs for the purposes of a true up will be a lengthy process with no clear end point as Retailers pursue disconnection and/or legal proceedings to crystallise their levels of bad debt. It would therefore be prudent to investigate alternative options to a true up to ensure a timely resolution to the matter of excess bad debt.

3. Do you agree with our approach to the 'true up', in the event we pursue one? Please explain your views.

We agree with Ofwat's proposal to calculate a true up based on information provided from prescriptive data requests rather than judgments and agree with the proposal to obtain data from the period October 2019 to March 2021. However, we note that not all Retailers have a financial year end in March and therefore it may not be possible to base the true up on audited accounts in all cases.

We also question the scale of the benefits that a true up could bring because, as per our answer to question 2, we believe a true up will be lengthy process without a clearly defined end point from which to quantify the true impact of Covid-19 on the levels of bad debt in the industry. We suggest that Ofwat should consider amending the bad debt allowances in the next regulatory pricing period regardless of the true up exercise.