

## Bad debt consultation questions response Sep 2021

There were just three questions raised in the bad debt decision paper published in July 2021, to which we give a short response in this document. Following on from our response to the questions, we have raised a couple of further points for Ofwat's consideration.

### **Question 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 agree that this approach is simple and we do not think there is a strong argument for adding complexity by pooling excess bad debt across different groups.

It is clear that SMEs have been more significantly impacted by the pandemic than larger businesses, with the increase in bad debt steeper in this segment than with larger users. However, we believe that the simpler approach will be beneficial in administrating the process and reducing costs, and so we are satisfied that this is a reasonable approach.

### **Question 2 - Do you see merit in the idea of not pursuing a 'true up'?**

We are minded to agree with Ofwat that a true up may not be necessary. This would add complexity and therefore cost to the debt recovery process which probably wouldn't be a good use of limited resources either at Ofwat or within retail companies when energy would be better directed at leveraging the opportunities that the wholesale and retail price reviews present to addressing some of the strategic market priorities.

The retail price review actually presents a route to incorporate an element of 'true up' around Covid-19 debt recovery alongside its wider review of price caps. We see no reason for carrying out a separate exercise.

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

We think the proposed approach indicates that a true up would add unjustifiable cost and complexity to the bad debt recovery process, given the level of independent assurance and review of the data likely to be involved. It would seem especially wasteful given that the wider retail price review will be underway, which could include elements of a true up.