

Ofwat  
Centre City Tower,  
7 Hill Street,  
Birmingham  
B5 4UA

15 September 2021

By email: 

Dear Colleagues

**BUSINESS RETAIL MARKET: CUSTOMER BAD DEBT – DECISION AND CONSULTATION**

Thank you for the opportunity to comment on Ofwat's decision and consultation on customer bad debt in the business retail market. We are broadly supportive of the decisions that Ofwat have made and are pleased to see regulatory support being provided to the business retail market and appropriate protections in place for customers. Noting the intention to implement a market-wide price cap, we would appreciate a swift response and feedback to allow us to understand our relative bad debt position against the wider UK market.

Our responses to the consultation questions can be found in Appendix 1 attached, I hope that you find these comments helpful. If you have any questions, please do not hesitate to contact me.

Yours sincerely



**Sally Mills**  
Chief Executive Officer  
Pennon Water Services

## APPENDIX 1

**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 the REC price caps. Do you agree with our approach here?**

PWS support the intention to 'pool' excess bad debt costs, with a view that the 'averages' calculation should be equitable between the consumption bands.

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

We agree with the proposed decision by regulator in not pursuing a 'true-up'.

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

We firmly believe that the market level of bad debt relating to COVID-19 will exceed the 2% threshold as the Regulator has highlighted.

Although Ofwat has extended the period which will be used to evaluate the impacts of Covid to between October 2019 and March 2021 we do not believe that this will capture the longer term impacts of Covid on UK businesses, As we submit this response it should be noted that approximately one million employees are still being paid furlough. The effect of this support scheme ending at the end of September 2021 is still unknown for non-household customers.

In section (i) Timing of the 'true-up' exercise – we believe the timescales proposed are too optimistic and we do not believe it is a question that can be meaningfully answered until March 2023, one year later than the proposed timetable.

We do agree that the wider REC review commencing April 2023 is an opportunity to review the market, the allowed cost to serve and be more creative in setting tariffs that give customers greater choice and it should also consider a further true-up of bad debt recognised between October 2019 and March 2021 and a review of the recoverability of the bad debt incurred in financial year ending April 2022 as well.

We would however like clarification, in the event of a true-up on what basis it would be applied – on a [REDACTED] an individual retailer basis?