

15 September 2021

Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Dear Ofwat

Customer Bad Debt Consultation

Wave has reviewed the Ofwat decisions following the previous bad debt consultations and we are responding to the additional questions posed below.

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?

No. As noted in Wave's previous response dated 6 April 2021, Wave supports the pooling of all customers with annual consumption less than 50MI (i.e. group 1 and 2 customers) but not larger customers (i.e. group 3).

Evidence (provided previously) shows that lower consumption customers have been affected more significantly by Covid-19 relative to larger consumption customers, however, targeting recovery from the lower consumption customers means higher price rises for those customers who have been hardest hit. Group 1 are also the type of customers most likely not to pay so pooling across customers groups 1 and 2 helps mitigate the risk of lower collection.

However, the evidence also shows that group 3 customers have contributed significantly and proportionately less to the debt risk and it does not seem fair or reasonable that these customers should cross-subsidise the lower consumption customers. Exclusion of the group 3 costs should be clear and simple to identify and implement and therefore this approach continues to meet Ofwat's objectives.

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

Yes, on the basis of Ofwat's evidence which is indicating that the threshold has not been significantly exceeded, we agree that the impact on customers is unlikely to be material, yet the costs and effort required by Retailers to provide a prescriptive and fully assured process is likely to be significant. Therefore, it would not be proportionate to pursue a true-up.

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

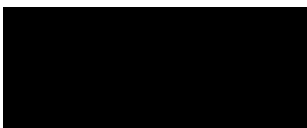
We do not support a 'true up'. As noted in our previous response, Wave has no mechanism for apportioning using consumption periods, as we can only apportion by bill dates.

We would also like to take the opportunity to raise the following point relating to the decisions.

We note that Ofwat is proposing to publish the decision document setting out adjustments to the REC price caps to apply from April 2022 by the end of February 2022. Unfortunately, the end of February will not provide Wave with sufficient time to apply the changes to our models, calculate our tariffs, obtain Board approval and publish our tariffs whilst maintaining the obligation in our customer Terms and Conditions that we will communicate price changes to our customers by 1 March. To achieve our timescales, we would need an Ofwat decision by the end of January 2022.

We hope that our response is useful. Do let me know if you would like to discuss further.

Yours faithfully



Wendy Monk
Director of Regulation and Compliance