



The voice for water consumers
Llais defnyddwyr dŵr

CCW response to the Water Services Regulation Authority (Ofwat) - Business Retail Market: Proposals to deal with un-invoiced Wholesaler charges in the event of an unplanned Retailer exit.

1. Introduction

- 1.1 The Consumer Council for Water (CCW) is the statutory body representing the interests of household and business customers of water and sewerage companies and licensed retailers in England and Wales.
- 1.2 We welcome the opportunity to respond to this consultation on extending the revenue recovery to include uninvoiced wholesaler charges using the Totex cost sharing mechanism, and amending the Wholesale Retail Code (WRC). While we do not disagree with the proposals, it is important that the customer impact is recognised, and any risks mitigated, when considering how to address the issues in question. We are, therefore, pleased that Ofwat is proposing to implement these changes in a way that should not result in any undue risks for customers.

2. Response to Consultation Questions

Question 1 – Does our proposed approach deliver the following policy aim in a way that is consistent with our statutory duties?

- 2.1 We agree with Ofwat’s proposed approach to this issue, as it is logical to apply the same treatment to un-invoiced revenue to that which is applied to invoiced revenue. Amending wholesalers’ licences to allow un-invoiced costs to be partly recoverable through the Totex cost sharing mechanism should achieve the equivalence being sought in this matter.
- 2.2 Allowing wholesalers to partly recover un-invoiced usage costs will potentially increase customers’ exposure to bearing some of the burden of bad debt. In addition, many customers have been financially impacted by the COVID-19 pandemic, so bad debt costs should only be recoverable through the cost sharing mechanism as a last resort. We are therefore supportive of the proposed amendment to the PR19 Reconciliation Rulebook which would require wholesalers to “fully exhaust securities and credit protections available to them” before any un-invoiced revenue can be recovered through Totex.
- 2.3 We agree that invoiced and un-invoiced usage costs should be treated the same, however, it would be useful to understand the materiality of the issue, and the possible impact on customer bills. For example, it would be helpful to understand the proportion of un-invoiced usage costs that were outstanding in the two retailer exits that have occurred so far. While the actual impact may have been low in those particular exits, it may still provide an indication of the level of exposure customers may face in the event of any future unplanned retailer exits.
- 2.4 It should also be recognised that inaccurate estimation of customer bills remains a problem in the market due to poor data quality. Therefore, where customers may be required to share some of the burden of un-invoiced usage costs, it is important that

these reflect wholesale charges based on actual meter readings, as much as possible. Where this is impractical, cost recovery could be based on estimation, but a true-up should be applied once actual readings are obtained. While we recognise this may introduce added complexity to the process, we believe this is necessary to protect customers from having to cover a proportion of over-estimated un-invoiced usage costs.

Question 2 - Do you agree that it is appropriate to apply company specific Totex cost sharing rates to amounts relating to un-invoiced revenue to be recovered via the RFI mechanism in the event of a Retailer failure?

- 2.5 As outlined above, we agree that invoiced and un-invoiced usage costs should be treated consistently, so it is reasonable that both should be partly recoverable through the Totex cost sharing rates. However, as highlighted above, it is important that such costs are only recoverable through this mechanism as a last resort. Wholesalers need to ensure that they have exhausted all efforts to avoid impacting customers, by trying to recover losses through credit protections and securities in the first instance.

Question 3 - Do you have views that alternative approaches may be more effective or straightforward to implement?

- 2.6 We believe that the proposed amendments to the RFI formula and the PR19 Reconciliation Rulebook are the most straightforward to implement, and should result in the cost sharing mechanism being effective for the intended purpose. In addition, we believe that the RAG3 disclosure requirement should ensure that wholesalers are submitting well evidenced cases for seeking cost recovery through Totex. However, in the best interests of customers, we would not expect Ofwat to permit this in the event that a wholesaler has failed to demonstrate that they have exhausted all alternative efforts to recoup costs.

Question 4 - Do you agree with the proposed change to the WRC? Please explain your answer.

- 2.7 We agree with the proposed changes to the WRC, as this will ensure that usage costs owed by retailers are treated the same, regardless of whether or not an invoice has been issued yet. It is particularly important for customers that this change is made, alongside the proposed changes to the Totex cost sharing mechanism. Clarifying that wholesalers are able to draw on credit support for all unpaid usage costs will potentially avoid customers having to bear some of the burden through Totex, which is therefore welcome.

Question 5 - Do you agree with proposed amendments to the legal drafting? Please explain your answer.

- 2.8 We agree that the proposed amendments will remedy the unintended consequence created by CPW079. The drafting makes it clear that sums that are owed but not yet due (i.e., un-invoiced usage costs) are the same as those owed and due for credit support purposes.

Question 6 - Do you agree that the proposed change to the WRC furthers the objectives and principles set out in WRC Schedule 1, as described in section 4 above?

- 2.9 Failing to address the CPW079 unintended consequence would potentially lead to customers bearing an extra unnecessary cost burden through the Totex cost sharing mechanism in the event of a retailer failure. We therefore agree that this change will result in the risks to customers being minimised. In addition, the proposed legal drafting provides clarity to wholesalers on the outstanding usage costs that they can claim, which increases transparency, and also furthers the principle of efficiency.

Enquiries

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