



The voice for water consumers
Llais defnyddwyr dŵr

CCW response to the Water Services Regulation Authority (Ofwat) –

Business Retail Market: Customer Bad Debt – Consultation on Adjustment to REC Price Caps from April 2022

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 Ofwat's proposal to adjust the Retail Exit Code (REC) price caps in April 2022 on a temporary basis for two years.
- 1.3 As part of this response, we want to reiterate our concern at customers being required to bear a disproportionate level of excess bad debt costs, as a result of Ofwat's previous decision to split this 75:25 in retailers' favour. While we agree that customers should make a contribution to addressing the levels of bad debt, we strongly believe the proposed split is inequitable. Both retailers and business customers have suffered financially as a result of the COVID-19 pandemic, which needs to be recognised in the proposals to address excess bad debt. As it stands, the impact on retailers appears to have been given more weight than the impact on affected business customers.
- 1.4 In principle, we agree with Ofwat's proposal to refrain from committing to a formal true-up of bad debt costs. As we highlighted in our response to the previous consultation in September 2021, there is a risk that a true-up would result in costs being revised upwards rather than downwards. Given that customers are currently required to bear 75% of excess bad debt costs, any further adjustment to the price caps would exacerbate an already inequitable situation. Therefore, on this basis, we would not support a true-up based on the current position.
- 1.5 If the decision is made to make further adjustments to the price caps in light of any bad debt costs materially increasing, we would only consider supporting this if there was a more equitable split between retailers, customers, and also wholesalers. We acknowledge that excess bad debt should be recoverable, but this needs to be fairly split across market participants and customers.

2. Response to Consultation Questions

Question 1 – Do you agree with our methodology (as set out in Annex A3 and in the accompanying Excel spreadsheet model) for calculating the temporary uplift to REC price caps to apply from April 2022?

- 2.1 We agree that Ofwat has taken into account all relevant factors in the calculation methodology, and that the amendment to the REC price caps should correctly implement what has been calculated.
- 2.2 However, we have further comments on some of the decisions and assumptions that have been made as part of this methodology. We provide our comments on these in response to the questions below.

Question 2 - Do you agree that it is reasonable, for the purposes of revising regulatory protections in respect of excess customer bad debt costs arising following the Covid-19 pandemic, to approximate efficient financing costs for Retailers at 3.5%? Please provide evidence or supporting materials for your views.

- 2.3 Based on the evidence that retailers have provided to Ofwat, and as set out in the consultation document, it seems reasonable to approximate these costs at 3.5%.
- 2.4 The clarity that the proposed figure should only relate to the retailer portion of excess bad debt, rather than applying to efficient financing costs more generally, is welcome. It is important for market participants to be aware that regulatory intervention is taking place to alleviate the financial impact of the pandemic, but finances need to continue to be managed appropriately through normal processes. We would not want to see any regulatory statements being misinterpreted which may then have an adverse impact on customers if retailers made risky financial decisions as a result.

Question 3 - Do you have views concerning forecast business retail market revenue out to 2023-24 for the purposes of calculating the proposed adjustment to REC price caps to take effect from April 2022?

- 2.5 It is difficult to agree whether or not Ofwat's prediction is correct that revenue will return to pre-pandemic levels in 2023-24. Given the pandemic is ongoing, and continues to have an impact on many businesses and the market as a whole, the economic landscape may be subject to further changes that could affect market revenue. As a result, it may be prudent to follow the proposal which opts for 2023-24, rather than 2022-23, as some retailers have forecasted. The previous RFI in October 2021 took place in a period where all government restrictions had been removed, which may mean retailers were more optimistic in terms of predicted revenue growth. In the event of this forecasting being inaccurate, there would be a risk that any significant under-recovery of costs would be subsequently corrected, thereby impacting customers in the future. It is, therefore, important that predictions in this area are as fair and accurate as possible.

Question 4 - Do you agree with our proposals to temporarily increase REC price caps by 0.31% with effect from April 2022?

- 2.6 We do not agree with the proposal to increase the price caps by 0.31% as this figure is based on retailers being permitted to recover 75% of excess bad debt costs from business customers. As stated previously, we do not agree that the sharing mechanism is fair for customers, so we disagree with the methodology behind this figure. We urge Ofwat to implement a more equitable sharing mechanism that splits excess bad debt costs across customers, retailers, and wholesalers more fairly.

Question 5 – Do you agree that the proposed amendments to the Retail Exit Code as set out in Annex A4 are correct in terms of implementing the proposed adjustment to REC price caps we have set out? If not, please specify why and how you think these should be adjusted

- 2.7 As stated in our response to Ofwat’s previous consultation on this subject, we agree that pooling costs across all customer groups should ensure that those who have been hardest hit do not have to bear a higher proportion of costs. We, therefore, agree that the proposed amendments to the REC will correctly implement the uplift to the relevant customer groups, and achieve the stated objective.

Enquiries

Enquiries about this response should be addressed to:

