

Sent by email to:
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Dear Ofgem

Response to Ofgem Call for input on next steps for the Debt Relief Scheme (DRS)

1. I am writing to you on behalf of SSEN Distribution in response to Ofgem's Call for input on next steps for the Debt Relief Scheme (DRS). We appreciate the opportunity to engage on this matter and welcome Ofgem's intent to tackle debt built up in the energy retail segment during the energy crisis.
2. As outlined in our previous correspondence, whilst we support the principal of debt relief for customers, we are concerned that the issues we have raised regarding the cross-contamination of network and retail costs and responsibilities have fundamentally not been addressed. This policy proposal involves mandating new costs and responsibilities on distribution network companies that do not relate to the operation of our businesses, nor the costs of running, maintaining and investing in the distribution network. We have repeatedly raised concerns about this in similar recent Authority decisions to impose unrelated costs and responsibilities (such as the SoLR Levy Offset proposals, and previous SoLR consultations). This is fundamentally distortive to the cost of the core services that we provide to customers.
3. This is part of a pattern of recent regulatory decisions that continue to cross-contaminate costs and responsibilities from other parts of the sector (principally energy retail) with distribution network businesses. We believe this weakens the sector overall by elevating the risk of wider contagion, blurring responsibilities and balance sheets, and not tackling the issues at the source of the problem. As such, we do not believe it is right that distribution networks and our customers should be mandated to incur costs from the energy retail market which fundamentally do not relate to the operation of our business nor the services we provide. We strongly encourage Ofgem to share its assessment of the legality of imposing this scheme.
4. Whilst we welcome the recognition that a solution requiring networks to finance this scheme over time is not in the best interests of consumers, Ofgem's current thinking does not clarify why there remains a role for networks in the recovery of supplier costs, nor why this is the best option to implement the proposed relief

scheme. This is particularly unclear in light of recent estimates of the scale of the scheme being 10% of the originally suggested value at the time of the initial consultation. This is particularly challenging when the values involved have a relatively small impact to our wider tariff setting and a small addition to network tariffs could result in an over-recovery of the sums involved. Should this scheme go ahead as currently articulated, though the amounts are small relative to distribution network tariffs overall, it is critical that Ofgem ensures that they are separated out in all future communication on the makeup of customer bills. Ofgem must make clear that these costs do not relate to the costs of the distribution network (which continues to extend to certain other costs, such as those relating to Supplier of Last Resort payments).

5. Given the pattern of adding non-network costs to customers' bills via network charges, we are considering bringing forward a proposal for appropriate amendments to our charging statements and/or schedules of charges to more clearly distinguish these amounts from cost of electricity distribution. Furthermore, Ofgem must consider the cumulative distortive effect of levying these types of costs solely on licenced distribution networks. This creates a competitive disadvantage in comparison to transmission networks and unregulated distribution networks (i.e. private wires) and sends false economic signals about the costs of regulated electricity distribution to customers which may affect their decisions.
6. There is a lack of clarity in the proposals on how any DRS impact would be shared across distribution network companies. Should Ofgem decide to continue with the inclusion of networks in this scheme, we propose that the licence modification must specify an estimated DRS cost to be initially recovered, and to be used as the basis for setting DUoS tariffs accurately, as well as Ofgem determining the amounts each network will be required to pay. Given it would not be reasonable for Ofgem to penalise network companies for any variations in amounts that do not relate to our business, and which we cannot forecast, it would be necessary for Ofgem to confirm that these amounts will not be included in the forecasting penalty to enable the proposed changes (specifically, the FP_t term as set out in the Special Conditions of our Licences).
7. Given Ofgem's stated intention for the DRS to be a one-off scheme, should Ofgem decide to continue with the inclusion of networks in this scheme, it is essential that this is made explicitly clear in any decision. This should include definitive start and end dates to enable networks to accurately assess, pay and recover the costs associated with DRS within a clearly defined timeframe which is limited to the current price control period.
8. The timescales to deliver upon Ofgem's proposals – should they go ahead in current form – are extremely tight given we are currently in the process of setting our Distribution Use of System tariffs for 2027/28. Along with the ENA, we have proposed an alternative process that we believe could more quickly and efficiently

deliver Ofgem's proposed policy aims by avoiding the requirement to amend the charging methodologies via DCUSA processes. This involves Ofgem providing consent for DNOs to charge other than in accordance with the established methodologies. We provide a copy of the proposed ENA solution in Annex 1 to this letter, and shared ENA responses to the specific consultation questions in Annex 2, both of which we fully support.

Should you have any further questions, please do not hesitate to contact me.

Yours sincerely,



Patrick Cassels

Head of Regulation and Commercial Operations, SSEN Distribution

Annex 1: Proposed ENA Solution

DRS is a one-off arrangement and implementation of the payment and cost-recovery methodology should be proportionate and therefore pragmatic. However, Ofgem's policy update in the working paper is neither.

Ofgem should:

- Avoid the administrative burden of code modifications where possible.
 - i. The required timeline underpinned by this requirement cannot work;¹ and
 - ii. There are better (simpler) alternatives regardless.
- Implement policy and associated licence changes by no later than 31 December 2025.
- The rest will then fall into place.
 - i. But Ofgem needs to move quickly.

A better, simpler arrangement is as follows:

- Ofgem commit to implement the policy changes by 31 December 2025.
- The electricity distribution licence (the 'licence') modifications specify estimated DRS costs to be recovered by DNOs in 2027/28.
- Ofgem separately provides DNOs with consent to charge other than in accordance with the charging methodologies approved under paragraph 1(a) of standard licence condition (SLC) 13 (Charging Methodologies for Use of System and Connection).
- As the approved charging methodologies do not accommodate DRS, DNOs calculate 2027/28 Use of System Charges as normal using the approved methodologies but excluding DRS costs. DRS costs are therefore excluded from the Price Control Financial Model (PCFM) that Ofgem will publish following this year's Annual Iteration Process.
- DNOs calculate the 2027/28 DRS charge adjustment offline and add this to domestic standing charges in published charging statements. This approach is consistent with that which Ofgem approved for DNOs recovering costs associated with two prior Supplier of Last Resort (SoLR) claims.²
- By the end of 2026, Ofgem determines the actual DRS costs.
 - i. This must be less than or equal to the estimated DRS costs.
- Ofgem tells networks how much of the actual DRS costs to pay which supplier and when in 2027/28.³

¹ Distribution Connection and Use of System Agreement (DCUSA) Clause 14.2 is an 'approval window': unless consent is given to disapply the period of notice described in Clause 19.1A of the DCUSA, modifications approved for implementation less than three months prior to the date on which the DNO must publish Use of System Charges are not implemented until the following year. For example, as DNOs are required to publish Use of System Charges effective from 1 April 2027 by 31 December 2025, a modification approved after 30 September 2025 will be implemented no sooner than 1 April 2028.

² https://www.ofgem.gov.uk/sites/default/files/docs/2018/02/coop_solr_derogation_letter_0.pdf;
https://www.ofgem.gov.uk/sites/default/files/docs/2019/02/octopus_solr_derogation_letter.pdf

³ Ofgem effectively do this already when giving consent to a SoLR to submit a Valid Claim to networks, but Ofgem should provide the information direct to networks instead.

- i. Therefore, no claims from suppliers are needed (meaning changes are needed to their draft licence modifications too), but the need for Ofgem to give consent to the amounts to be paid to suppliers remains.
- Any over-recovery in isolation is treated consistently with any other over/underrecovery in total – so there is no need for any specific carveout for DRS via the ‘correction’ of that over-recovery. Any over-recovery should be disregarded when considering adjustments to Allowed Revenue relating to the forecasting penalty in accordance with Part G of Special Condition 2.1 (Revenue Restriction) of the licence.
- If this is going to be a one-off scheme, but which may have a hangover into a second year, Ofgem needs to:
 - i. firstly, be explicit that is the case and justify why this won’t be resolved in one year in accordance with the initial policy intent; and
 - ii. secondly, replicate the 2027/28 provisions for networks to pay and recover costs in 2028/29 (i.e., Ofgem would provide an estimate for DNOs to include in Use of System Charges published at the end of 2026 and then provide the actual payment schedules by the end of 2027).

A draft timeline to make this work is provided in Annex 1A, and the licence conditions to give effect to it are provided in Annex 1B below.

Annex 1A: DRS Timeline

When?	What?	Why?
29-Aug-25	Deadline: Ofgem working paper closes for feedback	Ofgem published the DRS policy update working paper on 4 August 2025.
01-Oct-25	Milestone: Ofgem publish statutory consultation (open four weeks)	Ofgem need to work with networks and suppliers to ensure that the drafting is fit for purpose.
05-Nov-25	Milestone: Ofgem publish final decision (one week turnaround from statutory consultation closing)	A quick turnaround is needed, noting requirement to publish 27/28 charges by 31 December.
05-Nov-25	Milestone: Ofgem provide necessary consents	Ofgem provide consent to charge other than in accordance with the charging methodologies approved under SLC 13 (Charging Methodologies for Use of System and connection).
31-Dec-25	Milestone: Standstill period ends, licence modifications are implemented	56 day standstill period (following Ofgem's final decision) ends.
31-Dec-25	Deadline: DNOs publish 2027/28 Use of System Charges	<ul style="list-style-type: none"> • In accordance with DCUSA Clause 19.1A, DNOs must provide 15 months' notice of Use of System Charges. • These charges will include the recovery of estimated DRS costs. • To make this work, the PCFM must exclude DRS amounts. • DNOs will calculate the adjustment to domestic standing charges offline to recover the estimated DRS costs and add this adjustment to published charges (consistent with how the first two SoLR claims were recovered).
31-Jan-26	Deadline: IDNOs publish 2027/28 Use of System Charges	<ul style="list-style-type: none"> • In accordance with DCUSA Clause 19.1A, IDNOs must provide 14 months' notice of DUoS charges. • These charges would include the recovery of estimated DRS costs.
31-Jan-27	Deadline: GDNs publish final network charges for payment year	<ul style="list-style-type: none"> • GDNs provide two months' notice of final charges. • These charges would include the recovery of non-estimated DRS costs.
01-Apr-27	Milestone: Start of payment and recovery year (2027/28)	Ofgem's proposes networks make payments to suppliers from May 2027.

Annex 1B: Draft DNO licence conditions

Standard Licence Conditions

Condition 1. Definitions for the standard conditions

DRS Amount	means the total amount of the specified DRS Payments payable by the licensee.
DRS Claimant	means an Electricity Supplier specified as entitled to be paid a DRS Payment.
DRS Payment	means the amount specified as payable to a DRS Claimant to compensate for additional costs incurred complying with standard condition 24B (Debt Relief Scheme) of the Electricity Supply Licence.
Estimated DRS Amount	means the Authority's initial estimate of the DRS Amount as specified for the licensee in Appendix 1.

Condition 38D. Debt Relief Scheme

Introduction

38D.1 This condition sets out the circumstances in which the licensee must pay a DRS Claimant a DRS Payment and the amount that will be recovered via Use of System Charges.

Estimated DRS Amount

38D.2 The licensee shall seek to recover the Estimated DRS Amount in its Use of System Charges in the Regulatory Year 2027/28.

DRS Amount

38D.3 By 31 December 2026, the Authority will determine the DRS Amount, which must be equal to or less than the Estimated DRS Amount.

DRS Payments

38D.4. By 31 December 2026, the Authority will determine the DSR Claimants, the DRS Payments and the schedule for payment in the Regulatory Year 2027/28.

38D.5 The licensee must make the DSR Payments to the DSR Claimants in accordance with the payment schedule.

Appendix 1

Estimated DRS Amount (£)

Licensee	Estimated DRS Amount (£m)
ENWL	
NPgN	
NPgY	
WMID	
WMID	
SWALES	
SWEST	
LPN	
SPN	
EPN	
SPD	
SPMW	
SSEH	
SSES	

Special Conditions

Chapter 6: Pass-through expenditure

Special Condition 6.1 Pass-through items (PTt) Introduction

6.1.1 The purpose of this condition is to calculate the term PTt (the pass-through items term). This contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).

6.1.2 The effect of this condition is to ensure that the licensee's Allowed Revenue provides for certain costs to be passed through to users of the licensee's Distribution System.

Part A: Formula for calculating the pass-through items term (PTt)

6.1.3 $PTt = (Lft + RBt + TBt + SM Ct + SM Itt + Rft + SLRt + IBDA t + EDEt) - (SR Ct) + \underline{DRSt}$

where:

DRSt means the DRS Amount specified in accordance with Standard Condition 38D (Debt Relief Scheme)

Annex 2: ENA Responses to Specific Questions in the Call for Input

Funding and supplier cost recovery process

Is Pay When Paid with Third Party Assignment Rights the appropriate methodology for reimbursing suppliers?

Yes and no. Ofgem must still demonstrate how it clears the legality hurdle, but for a recovery option involving networks, a 'pay as you go' (PAYG) approach (akin to Supplier of Last Resort (SoLR) arrangements) should be used. This would help to avoid:

- contagion that may affect a network's financeability and future cost of capital;
- costing customers more than is necessary; and
- a repeated need for intervention, where Ofgem continues to rely on a short-term approach to regulating energy supply companies, with network companies increasingly relied upon to prop-up the competitive retail supply market.

However, a third party assignment is not warranted and will increase costs to customers.

- The materiality is very different relative to when it was introduced for SoLR (c.£2bn).
- It allowed payment to suppliers upfront (by the third party) whilst spreading the bill impact bills over multiple years (by networks paying the third party (including their interest costs) not the supplier).
- And to our knowledge, only one supplier took-up the option.
- This is not needed for DRS, which should be 'one and done'. Ofgem should not overcomplicate it, and risk increasing costs to customers in the process.