



Independent Networks
Association

To:

Andrew Ryan

Email: DebtConsultations@ofgem.gov.uk

6 February 2025

Dear Andrew,

Resetting the energy debt landscape: the case for a debt relief scheme

Thank you for the opportunity to comment on this consultation. I am writing on behalf of the Independent Networks Association (INA) who represent Independent Distribution Network Operator (IDNO) licence holders and Independent Gas Transporter licence holders (IGTs) that operate across Great Britain providing networks for customers in new housing developments, commercial and public sector facilities, EV charging, generation and storage facilities. Independent networks compete against themselves and incumbents to provide networks for their customers. The use of competitive networks has grown significantly in popularity as, in order to win the business, they provide a tailored service to developers, working with them to provide agile solutions to enable them to progress their projects and enable growth that supports net zero goals in a timely fashion, at a time when we require a more dynamic and innovative approach to network provision.

This response is focused on the policy itself and the implications for network companies.

Q1. Do you agree with our case for change?

We agree that vulnerable or low-income customers have been impacted with the effects of high inflation, global instability and the pandemic and recognise that action from a social policy perspective should be fully considered.

Q2. Should we intervene through the introduction of a debt relief scheme?

It is unclear that the proposals will solve the issue identified as wider and ongoing help and support may well be required to address any underlying issues that have caused the debt in the first place. This is a social policy, targeting specific customers. As such, we believe the correct route is that it should be funded on a similar basis to established energy precedents, such as the Winter Fuel Payment. This should be funded directly by Government or via a third-party finance

arrangement underpinned by the Government. It also seems more appropriate for an elected body to establish who benefits from the relief.

We have concerns that the scheme will produce unintended consequences, particularly due to the pace at which it is intended to be implemented and the need for wider review of supplier debt management. While a balance must be struck with vulnerability, the increase in irrecoverable debt coincides with increased restrictions on suppliers, which may increase the perception that energy bills do not need to be paid, creating a moral hazard. As Ofgem has a duty to future energy consumers, this consultation does not adequately evidence that this policy will reduce costs to consumers in the long run and meet Ofgem's duty through potentially creating this moral hazard.

If networks are required to provide upfront funding of this scheme, we believe that this would result in higher risk premiums for network investors with the implication that this will result in increased costs for future consumers. Coupled with the absence of a link to wider help and support to address the underlying causes of any debt, the risk that this does not achieve the aim of being a one-off scheme is increased and further exacerbates the cost of energy for all consumers.

Q3. Do you agree with the proposed design principles for a debt relief scheme?

The proposed design principles of the scheme seem appropriate. However, as above, 'avoiding perverse incentives' due to the creation of a moral hazard is a clear risk and needs to be carefully considered with some elements outside the purview of Ofgem. The principle of 'managing risk' to ensure risk does not spread across the energy sectors and that the stability and predictability of regulation is protected is critical at a stage when significant investment is required in order to deliver on the Government's growth and net zero objectives in the most cost-effective way.

Q4. Do you agree with our key objectives for a scheme?

The objectives are clear, but we remain to be convinced that the proposals will meet them, for example we do not see an improvement in the culture of debt management as an obvious outcome of writing off debt. The INA believes that another key objective should be adopted and that the duty to future customers is fully considered and the risks and costs to them are minimised.

Questions 5 to 12.

The INA's position is that the processing of claims and the delivery model should be judged with the objectives set out in the consultation but including the need to consider future customers and whether those solutions adequately contribute to ensuring this remains a one-off scheme.

Q13. Do you have any views on the funding options presented, considering the balance between the temporary addition to customer bills against period of recovery?

A cornerstone of the energy market is the vertical separation of activities to avoid cross subsidies. If Government will not fund it, it should be self-contained within the suppliers and funded through customer charging, including the allowances under the price cap where relevant. It is inappropriate for networks to cross subsidise the supply sector and runs counter to some of the considerations being investigated by Ofgem's financial ring fence review to prevent networks from funding supply activities.

Nor does it meet the proposed design principle of the 'management of risk' on page 19 of the consultation document which aims to avoid the unintended transfer of risk (contagion risk) across the energy sectors, protecting the underlying stability and predictability of the regulatory arrangements. As stated above, we are concerned that this may not end up being a one-off scheme and raises the perceived risk and costs of network investment by adding retail risk into networks. Coupled with the point on moral hazard made earlier, this has the potential to increase the cost of capital for networks and raise costs for future customers. There are also perception risks, particularly about the levels of standing charges attributed to distribution and so runs counter to Ofgem's actions to reduce the standing charge.

We also have concerns that broadening the scope of electricity network charges to fund what is clearly a social policy appears to be incompatible with Article 18 of the 2019 Internal Electricity Market Regulation that was transposed into UK law. Independent networks and their investors would like certainty from Government that should Ofgem pursue the option of recouping unrelated policy costs through network charging this will not cause electricity distribution licence holders to be in breach of legislation.

We do not believe that the Supplier of Last Resort (SoLR) process is an analogous model for a debt relief policy. SoLR is there to prevent discontinuity of energy supplies for large amounts of customers from a supply company failure, which is an exigent and extraordinary event. We disagree that this should be a precedent for any Debt Relief Scheme.

There are also practical issues with networks funding the upfront costs of this scheme. As the window to deliver this policy is small, presumably that could mean all networks would be seeking additional funding at the same time. This could result in price gouging as it will be clear networks are under a regulatory obligation to raise money at the same time. Short-term borrowing rates will be higher than Weighted Average Cost of Capital, investors will also see greater risk (i.e. price it as retail risk and not at network risk levels) so the belief in the consultation that this will represent a lower financial cost appears unlikely.



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There are, in addition, some specific issues relating to independent networks that require consideration. Ofgem have a legal duty to ensure networks are able to finance their activities under the Electricity and Gas Acts. Independent networks have bespoke funding models relating to their size and business focus (buildings, generation, EV charging etc). They are likely to have higher financing costs than incumbents and so this would increase costs to consumers.

The independent model has established relative price controls that are recouped year on year through charges. Upfront funding of a debt relief scheme in the timescales set out in the document that could potentially only be recovered over three to five years, represents a significant departure from the current model for investors. The independent sector licence holders may not be able to enlarge debt facilities and will, in some cases, breach financial covenants. This could impact their ability to finance their businesses and also impact their contribution to growth projects and to the net zero transition.

It is unfortunate that Ofgem are also pursuing a review of financial ring fencing at the same time that it is looking to enact this policy. The Debt Relief Scheme, if networks provide upfront funding, runs in the opposite direction to what the financial ring fence work is considering. Ofgem are reviewing options for the independent sector around credit ratings or guarantees from investors and increased separation of independent network businesses to prevent the possibility of them funding supply and generation businesses. Whereas the Debt Relief Scheme could weaken credit ratings and raise the cost of capital. The creation of such uncertainty for investors does not meet the proposed design principle of the 'management of risk' and protecting the underlying stability and predictability of the regulatory arrangements.

There are also some specific issues for Independent Gas Transporters (IGTs) that need consideration. Ofgem issued a call for input on whether to review the IGT Relative Price Control on 29 January 2025, which has been in place since 2004. We understand the review of RPC may not conclude until the end of the year, which conflicts with the timetable set out in this document and creates uncertainty for investors at a time when they could be asked to also provide upfront funding for a Debt Relief Scheme.

Due to the concerns raised above, we do not support the proposal of networks funding the upfront costs of this policy. If any final proposals seek to recoup funding through network charges and, in order to mitigate the impacts on network businesses, network charges need to be collected and paid to the relevant body after they have been received by the network operator and paid within year i.e. a pass-through approach.

In addition to the concerns above, there are also some practical issues of how the SoLR process for gas was created that need consideration. Gas Distribution Networks (GDNs) pay upstream costs to shippers up to Connected System Entry Point. Code Modification UNC 809 was put in



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place to allow GDNs to recover SoLR costs directly. This means that SoLR costs are allocated upstream, which matches the licence condition that is on GDNs only. Should the obligation to provide upfront network funding be extended to IGTs, further changes would need to take place to licences, codes and Xoserve's systems to allow IGTs to receive funding for any capital raised under this policy.

Q14 and 15.

The INA's position is that a supplier funded model, and the further proposals circulated on 4 February 2025, should be judged with the objectives set out in the consultation but including the need to consider future customers and whether those solutions adequately ensure or contribute to this remaining a one-off scheme.

Q16. Should debt matching be included in a debt relief scheme?

Any attempt to reduce the upfront costs of this policy should be fully considered.

Q18. Should networks pay approved debt relief scheme claims to suppliers in winter 2025/26, or only later when networks have received the funding via higher network charges?

As set out above, if any final proposals seek to recoup funding through network charges and, in order to mitigate the impacts on network funding and costs to current and future customers, network charges need to be collected and paid to the relevant body after they have been received by the network operator and paid within year i.e. a pass-through approach.

Q19. Over how many years should networks recover the cost of a debt relief scheme – for example, 1, 3 or 5 years?

Due to the complexity and increase in the cost of debt over time, the recovery should be as short as possible, so we believe that one year is appropriate.

Q20 to 27. The INA believes that eligibility and conditionality conditions should be judged with the objectives set out in the consultation but including the need to consider future customers and whether those solutions adequately ensure or contribute to this remaining a one-off scheme.



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Please do not hesitate to contact me to clarify any points raised in this submission and we look forward to actively engaging with Ofgem as this policy is considered.

Yours sincerely,

Nicola Pitts
Executive Director