



Making a positive difference
for energy consumers

To Distribution Network
Operators (DNOs), Gas
Distribution Networks (GDNs),
Transmission Owners (TOs), the
Electricity System Operator
(ESO), Energy supply companies,
gas shippers and other interested
stakeholders

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Date: 12 October 2020

To interested parties,

Statutory consultation on proposed changes to the Special Conditions (also known as the Charge Restriction Conditions 'CRC') of the electricity distribution licence.

The electricity distribution network operators¹ (DNOs) in Great Britain are the holders of an electricity distribution licence (the Licence) granted under section 6(1)(c) of the Electricity Distribution Act 1989.

The Network Charge Deferral (NCD) scheme, run by the Energy Networks Association (ENA), has helped to minimise disruption to customers and other market participants, by assisting suppliers and shippers who face cash-flow issues due to the unprecedented public health crisis triggered by COVID-19.

In our open letter on the NCD scheme², published on 2 June 2020, we said that where any supplier or shipper takes advantage of such schemes, we would expect network companies to pursue any debt through the liquidation process. However, where network companies have sought to do this, we also said they would be able to recover outstanding bad debt within the

¹ The GB electricity distribution network - <https://www.ofgem.gov.uk/electricity/distribution-networks/gb-electricity-distribution-network>

² Open letter on relaxing network charge payment terms, published 2 June 2020 - https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_1.pdf

year 2021-22 and that we would propose licence modifications to give effect to this in due course.

In a subsequent open letter published on 7 August 2020 we set out options for enabling electricity distribution network operators to recover any potential bad debts arising as a direct result of that scheme in the year 2021-22.³ The options we outlined in this open letter for electricity distribution were briefly:

1. Introduce a miscellaneous pass-through term
2. Modify the existing Eligible Bad Debt (EBD_t) in the Special Conditions of the electricity distribution license.
3. Introduce a new NCD specific bad debt pass-through term.

We believe option 3 is the best approach, and explain this in more detail below.

Review of Industry Responses

We received 17 responses to our open letter published in August 2020. The responses that were marked as non-confidential have been published on our website.

We have summarised all of the non-confidential responses in Appendix 1 along with our views on the points raised. Where a respondent did not explicitly refer to a question, we have summarised their comments.

The majority of responses were positive, and believed option 3 in our open letter was an appropriate solution to recover bad debt. We have engaged with DNOs and the ENA on several occasions to inform our approach to the recovery of potential NCD related bad debt. We have considered the responses to our open letter, along with our engagement with the DNOs and the ENA, and where appropriate we have amended our final drafting in Appendix 3.

Our Proposal

We propose to modify the Special Licence Conditions of the electricity distribution licences held by the DNOs by making the changes outlined below.

We propose to introduce a new Network Charge Deferral (NCD) specific bad debt term (CBD_t), similar to existing business rates and licence fee terms in the Special Conditions of the

³ Managing Network Charge Bad Debt - <https://www.ofgem.gov.uk/publications-and-updates/managing-network-charge-bad-debt-0>

electricity distribution licence. We propose that the CBD_t term will be an additional pass-through item⁴ within the CRC 2B(Calculation of Allowed Pass-through items) Principal Formula. The CBD_t term would involve setting a provisional allowance, based on estimated values provided by the licensee, which is trued-up in the following period through Regulatory Instructions and Guidance (RIGs) reporting.

This change would allow the recovery of bad debt costs directly resulting from the NCD scheme only. We believe, as do the majority of respondents to our open letter, that this approach is the simplest way to modify the existing licence conditions in comparison to options 1 and 2 discussed in our 7 August 2020 open letter, and mentioned above. We consider that this approach avoids the complexities of modifying the existing EBD_t term, and allows for the recovery of NCD specific bad debt in 2021-22 through the CBD_t term.

We welcome views on the proposed modifications and will take these into consideration before making our final decision.

Structure of this letter

There are four appendices to this letter:

- Appendix 1 sets out our responses to the issues raised by parties in response to our proposals in the 'Managing Network Charge Bad Debt' open letter.
- Appendix 2 gives Notice of a statutory consultation on our proposal to modify the Special Conditions to the electricity distribution licence.
- Appendix 3 sets out the proposed draft modifications to the Special Conditions to the electricity distribution licence.
- Appendix 4 sets out an indicative timeline of events.

Views invited and next steps

We are inviting views on the proposed modifications to the electricity distribution licences set out in Appendix 3. Please provide your views, preferably by email, to regfinance@ofgem.gov.uk, on or before **9 November 2020**.

We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as confidential. We prefer to receive responses in an electronic form so that they can be placed easily on our website. If you would prefer to reply by post, please address this to:

⁴ A pass-through item amends the licensee's Allowed Distribution Network Revenue so as to allow certain costs to be passed through to users of the licensee's Distribution System through Use of System Charges.

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If you have any questions regarding this letter, please contact regfinance@ofgem.gov.uk.

Yours faithfully,

Steve McMahon

A handwritten signature in black ink, appearing to read 'Steve McMahon', written in a cursive style.

Deputy Director, Systems & Networks

Appendix 1. - Summary of responses to our August consultation and our views

No.	Stakeholder	Comment	Response
1	SSE	<p>Supportive of ENA response submitted.</p> <p>We would encourage Ofgem to share with us its revised licence drafting to implement its proposals, including the consequential changes to Regulatory Reporting. We are mindful of the tight timescales surrounding this work and we believe it would be prudent for Ofgem to share a further draft ahead of the required Statutory Consultation to give affected parties the opportunity to test the 'mechanics' of the drafting and ensure that it is delivering on your intent.</p>	<p>Noted - we have since shared a further draft ahead of the consultation.</p>
2	Cadent	<p>In discussions with Ofgem we have suggested that given the risks associated with implementation of RIIO2 by 1 April 2021 that we would support de-linking this proposal from the overall RIIO2 licence consultation process to ensure it can be applied to any bad debt associated with the NCD scheme. We recognise this may be difficult for Ofgem and therefore suggest that should RIIO2 be delayed, that in respect of the NCD scheme, we utilise the existing RIIO1 Miscellaneous Pass through term to recover any costs arising.</p>	<p>We do not foresee RIIO2 implementation being delayed beyond the current 1 April 2021 date. Appropriate steps will be taken, including discussion with network companies as to a resolution, in the unlikely case of there being a delay.</p>
3	Cadent	<p>Q1: Do you agree that our proposals would allow the recovery of bad debts, by network licensees, relating to Network Charge Deferral scheme (COVID19) in 2021-22?</p> <p>We agree that Ofgem's proposals and preferred Option 3 of introducing a Bad Debt term as a pass-through item in respect of the NCD scheme would allow recovery of bad debt by network licensees subject to clarity on the detail mechanisms and rules that will be applied to the licence and associated RIGs. Further to this, we request that Ofgem considers extending this provision to recovery of bad debt arising from any shipper in this final year of RIIO1 whether they have participated in the NCD scheme or not.</p> <p>As Ofgem has recognised, there is a risk around RIIO2 delivery for 1 April 2021 and therefore we suggest that as part of this proposal Ofgem gives due consideration to alternative risk mitigation measures that could be applied if needed. The two options that we believe could be implemented are either to de-link the Bad Debt pass through condition from the main RIIO2 licence consultation process to allow it to be implemented by 1 April 2021 on its own, or in the case of gas distribution networks, utilise the Miscellaneous Pass through term that already exists in the licence.</p> <p>Recognising that the former may be difficult from a process management perspective, we suggest that Ofgem considers utilising the latter should bad debt arise from the NCD scheme and the RIIO2 implementation risk materialise.</p>	<p>To clarify, an important distinction between the RIIO-1 bad debt term for ED1, and the RIIO-2 bad debt terms for GD2/GT2 and ESO is that:</p> <ul style="list-style-type: none"> - RIIO-1 bad debt term (ED1) allows for recovery of NCD-related bad debt only; - RIIO-2 bad debt term (GD2/GT2/ESO) allows for recovery of all network charge bad debt. This therefore allows for the recovery of bad debt arising from any shipper whether or not they have participated in the NCD scheme.

No.	Stakeholder	Comment	Response
4	Cadent	<p>Q2: Do you agree with the introduction of a pass-through term in the RIIO2 licence as an enduring solution for the recovery of bad debt?</p> <p>We agree with the introduction of a pass-through term as an enduring solution for the recovery of bad debt, as it better aligns gas transportation revenue credit risk with Ofgem’s implied low risk/low return RIIO2 cost capital proposals. Gas transporters mitigate their revenue risk through UNC credit and security arrangements, but are nevertheless exposed to defaulting shippers. While this has been a rare occurrence to date, the increasing levels of competition and financial strains in the gas market even before COVID-19 are becoming more apparent, increasing the risk gas transporters with limited means to manage such exposure.</p> <p>Finally, in relation to both Q1 and Q2 and noting Ofgem’s indicative timetable, there may be a need to clarify the timing of provisional bad debt allowances to enable GDNs to calculate and issue final transportation price notices at the end of January in each formula year.</p>	<p>Timings and further details will be clarified in the relevant guidance to accompany the reporting templates and in the finalised drafting of the license conditions. We will work with the networks to develop this guidance and the reporting template.</p>
5	WWU	<p>We would like to see the licence change for recovery of any bad debt from a shipper that accessed the Network Charge Deferral scheme introduced immediately as this is what was agreed with Ofgem when the scheme was being designed.</p> <p>Should the start date of RIIO-2 be postponed (an issue that Ofgem is actively considering as demonstrated by the letter “Ofgem Contingency Plans for RIIO-GD2”) then licensees would be exposed to any debt associated with the Network Charge Deferral scheme until the RIIO-2 licence conditions came into effect.</p>	<p>As RIIO-1 is coming to a close, we believe the most effective approach is to implement this term within RIIO-2.</p> <p>We do not foresee RIIO2 implementation being delayed beyond the current 1 April 2021 date. Appropriate steps will be taken, including discussion with network companies as to a resolution, in the unlikely case of there being a delay.</p>

No.	Stakeholder	Comment	Response
6	NGN	<p>NGN believe that the scheme met all of the Ofgem and industry requirements while ensuring that risk of bad debt is minimised. During all discussions the Gas Transporters set out an expectation that any bad debt incurred as a result of this scheme would be passed through in our network charges in the shortest timescale to ensure no adverse financing impacts were passed on to the Gas Transporters.</p> <p>We believe that the use of the Miscellaneous Pass-Through term, MPt, is the quickest and most efficient way to pass through any bad debt incurred under the current governance arrangements and we believe this remains the most appropriate option of any bad debt incurred at the point of price setting for the regulatory year 2021/22. We support improvements to our Licence to add a new enduring Bad Debt condition for clarity of how bad debt may be managed in future. We will support development of this Licence condition through the RIIO-2 Licence working groups and expect this will be introduced into our Licence from April 2021.</p>	<p>Response noted.</p> <p>The MPt approach whilst simple to implement, would require companies to request consent for the pass-through. Therefore, this option would place an administrative burden on all parties, with Ofgem potentially having to consider a number of requests for consent each year.</p>
7	Xoserve	<p>Xoserve is supportive of the preferred proposals outlined in this consultation.</p> <p>Q1: Do you agree that our proposals would allow the recovery of bad debts, by network licensees, relating to Network Charge Deferral scheme (COVID-19) in 2021-22?</p> <p>We agree that these proposals will allow for the recovery of bad debts, however we would ask that some consideration be given to the specific mechanism used to do this. The existing Request to Bill (RTB) process between network companies and Xoserve could be used to deliver this proposal. Provisions already exist for late payment interest or amended payment terms. We would caution against the creation of bespoke invoicing processes to recover NCD debts, as this could be both costly and time consuming. Xoserve welcomes the opportunity to review the mechanics of this recovery with Ofgem and our DSC members in more detail.</p>	<p>The proposed licence drafting covers NCD debts for the ED1 licence. This appears to be a gas issue and having already consulted with the GDNs, the introduction of a bad debt term was considered to be the best approach. Having said this, we will consider this in our proposals for the GD sector.</p>
8	NGGT	<p>We agree that of the three options set out in the Ofgem open letter, option 3 provides an enduring solution to recover bad debts and allows for recovery of NCD bad debt.</p> <p>We note option 3 does not propose a change to the RIIO-1 licence conditions but proposes to reflect an estimate of potential RIIO-1 bad debts in the RIIO-2 final determinations specifically for bad debts that crystallise during the RIIO-2 price control. We believe the definition should, in addition, include bad debts that crystallised in the RIIO-1 period as GT has no RIIO-1 mechanism to recover these debts. The value included in the final determinations should be inclusive of the appropriate time value of money adjustment</p>	<p>Bad debts crystallising in RIIO-1 will be part of our close-out work at the end of the price control. Any amounts relating to the RIIO-1 period will be reflected within RIIO-2 allowances as a legacy item within the LAR or LRAV terms.</p>

No.	Stakeholder	Comment	Response
9	NGGT	<p>Q1: Do you agree that our proposals would allow the recovery of bad debts, by network licensees, relating to Network Charge Deferral scheme (COVID-19) in 2021-22?</p> <p>As stated above, we welcome the introduction of a term for bad debt recovery into the licence per the recommended approach.</p> <p>The timescale indicated in the letter shows the intent to recover NCD bad debt in 2021-22.</p> <p>Specifically, we note that Ofgem will direct the RIIO-2 licence and the Price Control Financial Model (PCFM) in January 2021 which will include the bad debt value submitted by the licensee in early January 21. The use of estimated values provided by the licensee, which is trued-up in the following period through RIGs reporting, will enable licensees to forecast bad debts that they anticipate crystallising in 2021/22. To adhere to internal governance timelines as Allowed Revenue forecasts are internally agreed in the 2nd-3rd week of January, we require clarity on exact timings of the publication to ensure we can accurately calculate charges.</p> <p>We agree that the networks should be kept whole as a result of the NCD schemes. However, the open letter refers to the recovery of NCD debt covering the value of debt deferred (up to 75%). We believe that should the remaining 25% result in bad debt, this would be covered under 'other bad debts incurred due to non-payment of network charges'. We would welcome clarification from Ofgem on this.</p> <p>We note that Ofgem propose to adjust any bad debt recovery with the interest accrued by the network companies, net of the cost of capital. Therefore, we propose for transparency that the interest earned on deferrals resulting from NCD is included as a separate term within the licence drafting. This will also enable clarity of drafting for the enduring solution as the term can be switched off.</p>	<p>To clarify, our proposals enable networks to recover all network charge related bad debt costs. Under the scheme, 75% of the monthly network charges may be deferred, with the remaining 25% of the monthly network charge to be paid.</p> <p>The detail of how to account for Late Payment Interest earned on deferrals will be covered by the accompanying reporting guidance. We will consult with the networks when we are developing this guidance.</p>

No.	Stakeholder	Comment	Response
10	NGGT	<p>Q2: Do you agree with the introduction of a pass-through term in the RIIO-2 licence as an enduring solution for the recovery of bad debt?</p> <p>We agree with the introduction of the pass-through term in the RIIO-2 licence as an enduring solution for recovery of bad debt incurred due to non-payment of GasTransportation charges which comprises System Operator (SO) and Transmission Owner (TO) charges.</p> <p>As noted in Q1, the licence drafting needs a separate term for the interest earned on deferrals resulting from NCD which can be switched off for the enduring solution.</p> <p>As noted above, option 3 does not propose a change to the RIIO-1 licence conditions but proposes to reflect an estimate of potential RIIO-1 bad debts in the RIIO-2 final determinations specifically for bad debts that crystallise during the RIIO-2 price control. We believe the definition should, in addition, include bad debts that crystallised in the RIIO-1 period as GT has no RIIO-1 mechanism to recover these debts. The value included in the final determinations should be inclusive of the appropriate time value of money adjustment.</p>	<p>We do not foresee RIIO2 implementation being delayed beyond the current 1 April 2021 date. Appropriate steps will be taken, including discussion with network companies as to a resolution, in the unlikely case of there being a delay.</p>
11	NGGT	<p>Appendix 2 of the open letter includes an indicative timeline for the enduring solution.</p> <p>We note that the timeline includes a step which is notification to Ofgem of a bad debt value in Jan 22 (and each subsequent year). In RIIO-1 the over/under recovery (K) is calculated as the difference between the allowed revenue and collected revenue. The timeline indicates that Gas Transportation charges will be set to recover the published November allowed revenue as adjusted for the bad debt value provided in January. If the RIIO-1 approach for calculating K is followed in RIIO-2 there will be a K difference as soon as we set charges as the published allowed revenue will be lower than the revenue used for charge setting. We do not believe that this is Ofgem's intent and therefore propose that the bad debt forecast is included in the published November allowed revenue.</p>	<p>The timeline referred to was an indicative timeline and has since been amended following further engagement with networks.</p> <p>We propose to allow networks to provide any updates to the provisional bad debt values in time for the 2021 November AIP (i.e. by the 30 October 2020 cut-off date for variable values).</p> <p>This updated value will then be included in the PCFM for AIP in Nov 2021 and will be used for setting tariffs for 2022/23.</p>

No.	Stakeholder	Comment	Response
12	NGESO	<p>We agree that of the three options set out in the Ofgem open letter, option 3 provides an enduring solution to recover bad debts and allows for recovery of NCD bad debt.</p> <p>We note option 3 does not propose a change to the RIIO-1 licence conditions but proposes to reflect an estimate of potential RIIO-1 bad debts in the RIIO-2 final determinations specifically for bad debts that crystallise during the RIIO-2 price control. We believe the definition should, in addition, include bad debts that crystallised in the RIIO-1 period as the ESO has no RIIO-1 mechanism to recover these debts. The value included in the final determinations should be inclusive of the appropriate time value of money adjustment.</p>	<p>Bad debts crystallising in RIIO-1 will be part of our close-out work at the end of the price control. Any amounts relating to the RIIO-1 period will be reflected within RIIO-2 allowances as a legacy item within the LAR or LRAV terms.</p>
13	NGESO	<p>Currently, the TNUoS allowed revenue is not published via a PCFM direction but calculated by the ESO. We do not believe that the TNUoS bad debt term needs to be directed. We welcome discussions with Ofgem on the inclusion of the bad debt value in the calculation of the TNUoS allowed revenue.</p> <p>We agree that the networks should be kept whole as a result of the NCD schemes. However, the open letter refers to the recovery of NCD bad debt covering the value of debt deferred (up to 75%). We believe that should the remaining 25% result in bad debt, this would be covered under 'other bad debts incurred due to non-payment of network charges'. We would welcome clarification from Ofgem on this.</p> <p>We also agree that consumers should benefit from any interest accrued by networks due to the NCD scheme. We note that Ofgem propose to adjust any bad debt recovery with the interest accrued by the network companies, net of the cost of capital. For the TNUoS NCD scheme the ESO will be charged interest by the TOs therefore the interest adjustment will have to reflect this arrangement. Therefore, we propose, for transparency, that the interest earned on deferrals resulting from NCD is included as a separate term within the RIIO-2 licence drafting. This will also enable clarity of drafting for the enduring solution as the term can be switched off.</p>	<p>We will address the TNUoS bad debt drafting through our Informal Licence Drafting consultation. We request that you feed this comment back to us as a response to that consultation.</p> <p>To clarify, our proposals enable networks to recover all network charge related bad debt costs. Under the scheme, 75% of the monthly network charges may be deferred, with the remaining 25% of the monthly network charge to be paid. The detail of how to account for Late Payment Interest earned on deferrals will be covered by the accompanying reporting guidance. We will work with the networks to develop this guidance.</p>

No.	Stakeholder	Comment	Response
14	NGESO	<p>Q2: Do you agree with the introduction of a pass-through term in the RIIO-2 licence as an enduring solution for the recovery of bad debt?</p> <p>We agree with the introduction of the pass-through term in the RIIO-2 licence as an enduring solution. Whilst the open letter refers to bad debts arising from non-payment of TNUoS and BSUoS charges being incurred by the ESO, the ESO has other charges which carry a similar bad debt risk. The recovery of bad debt term should be extended to include other charges as well as TNUoS and BSUoS, for example Site-Specific charges (DIS) or Transmission Owner Final Sums charges (TS) as defined in the RIIO-1 ESO Licence. TNUoS charges are currently recovered from generators and suppliers. The current drafting does not consider generator bad debt and therefore for the ESO the enduring solution should cover potential default by generators as well as suppliers.</p> <p>As noted in Q1, the RIIO-2 licence drafting needs a separate term for the interest earned on deferrals resulting from NCD which can be switched off for the enduring solution.</p>	<p>We are continuing to explore the appropriate solution to recovering ESO network charge bad debt.</p>
15	NGESO	<p>Appendix 2 of the open letter includes an indicative timeline for the enduring solution. We note that the timeline includes a step which is notification to Ofgem of a bad debt value in Jan 22 (and each subsequent year).</p> <p>The timeline indicates that BSUoS charges will be set to recover the published November allowed revenue as adjusted for the bad debt value provided in January. The RIIO-1 licence includes an obligation, which we expect to be replicated in the RIIO-2 licence, that the licensee must use its best endeavours to ensure that the revenue collected by the licensee from the Balancing Services Activity associated with internal costs does not exceed the calculated allowed revenue.</p> <p>In RIIO-2 the allowed revenue will be published by Ofgem in November as calculated in the PCFM. If we set charges based on the published allowed revenue adjusted for the bad debt submission in January, we will be setting charges to recover more than the PCFM calculated allowed revenue and potentially breach the obligation. We do not believe that this is Ofgem's intent and therefore propose that the bad debt forecast is included in the published November allowed revenue.</p>	<p>The timeline referred to was an indicative timeline and has since been amended following further engagement with networks.</p> <p>We propose to allow networks to provide any updates to the provisional bad debt values in time for the 2021 November AIP (i.e. by the 30 October 2020 cut-off date for variable values).</p> <p>This updated value will then be included in the PCFM for AIP in Nov 2021 and will be used for setting tariffs for 2022/23.</p>

No.	Stakeholder	Comment	Response
16	ENA(On behalf of GDNs)	<p>Q1: Do you agree that our proposals would allow the recovery of bad debts, by network licensees, relating to Network Charge Deferral scheme (COVID-19) in 2021-22?</p> <p>We would agree that, in principle, Option 3 would allow recovery of COVID-19 Bad Debt in Regulatory Year 2021/22, subject to the drafting of the licence condition and the relevant formulae being appropriate.</p> <p>We believe that Ofgem should consult on the principles to be applied to the treatment in the RIGs of the “true-up” of the COVID-19 Bad Debt amount via the Revenue Reporting Pack at the same time as the statutory consultation on the licence modifications.</p>	<p>We will discuss the principles to be applied to the treatment in the RIGs of the true up of bad debt via the RRP after the statutory consultation on the ED NCD bad debt license modifications.</p>
17	ENA(On behalf of GDNs)	<p>Q2: Do you agree with the introduction of a pass-through term in the RIIO-2 licence as an enduring solution for the recovery of bad debt?</p> <p>We are supportive of a specific term being introduced under Ofgem’s preferred option 3. It is our preference that this condition is introduced in the current GD1 price control period (enabling recovery of any bad debt associated with the COVID-19 network payment deferral scheme) rather than as part of GD2 licence conditions, recognising these may be subject to delay.</p>	<p>We do not foresee RIIO2 implementation being delayed beyond the current 1 April 2021 date. Appropriate steps will be taken, including discussion with network companies as to a resolution, in the unlikely case of there being a delay.</p>
18	ENA(On behalf of DNOs)	<p>Q1: Do you agree that our proposals would allow the recovery of bad debts, by network licensees, relating to Network Charge Deferral scheme (COVID-19) in 2021-22?</p> <p>We would agree that, in principle, Option 3 would allow recovery of COVID-19 Bad Debt in Regulatory Year 2021/22, subject to the drafting of the licence condition and the relevant formulae being appropriate. We believe that Ofgem should consult on the principles to be applied to the treatment in the RIGs of the “true-up” of the COVID-19 Bad Debt amount via the Revenue Reporting Pack at the same time as the statutory consultation on the licence modifications.</p>	<p>We will discuss the principles to be applied to the treatment in the RIGs of the true up of bad debt via the RRP after the statutory consultation on the ED NCD bad debt license modifications.</p>
19	ENA(On behalf of DNOs)	<p>Q2: Do you agree with the introduction of a pass-through term in the RIIO-2 licence as an enduring solution for the recovery of bad debt?</p> <p>We are broadly supportive of Ofgem’s preferred option 3 noting that it may be easier to implement and maintain and introduces an element of forecasting and true-up against the forecast on an enduring basis that is not currently present in the existing condition in the distribution licence.</p> <p>If Ofgem decides to modify the existing condition in the distribution licence, we would favour Ofgem’s preferred option 3, subject again to the drafting being appropriate. As noted above, Ofgem should consult on the principles to be applied to the treatment of the “true-up” in the RIGs of bad debt amounts on an enduring basis via the Revenue Reporting Pack at the same time as the statutory consultation on the licence modifications.</p>	<p>We will discuss the principles to be applied to the treatment in the RIGs of the true up of bad debt via the RRP after the statutory consultation on the ED NCD bad debt license modifications.</p>

No.	Stakeholder	Comment	Response
20	ENA(On behalf of DNOs)	<p>Net cost of capital:</p> <p>We note Ofgem’s proposal to adjust any bad debt recovery with the interest accrued, net of the cost of capital, with the cost of capital being the relevant sector’s RIIO-1 weighted average cost of capital for COVID-19 Bad Debt and a fixed margin over a floating bank rate for RIIO-2.</p> <p>We are still considering our position but currently consider that short term bank debt measures would not be an appropriate benchmark for the cost of capital of providing this funding. Equity holders are placing their capital at risk in providing this funding, whether debt facilities are used or not, and the appropriate benchmark for the financing cost is well above the cost of short-term debt.</p> <p>It is our understanding that licensees will be able to recover the principal debt and:</p> <ul style="list-style-type: none"> i) Deduct the cost of capital (as it is ultimately defined) from the amount of interest accrued; and ii) Retain, therefore, the amount equating to the net cost of capital such that the licensee returns to customers less interest than it received because the licensee financed the bad debt. <p>Consistent with the principle that any bad debt recovery will be on an NPV neutral basis. Ofgem should confirm whether our understanding is correct, such that an appropriate definition of “cost of capital” for this purpose can be drafted for inclusion in the relevant licence condition.</p>	<p>Further to this, we have since discussed the approach to cost of capital with the DNO's and have received feedback, where we have agreed that the Vanilla Weighted Average Cost of Capital is most appropriate. The definition can be seen in Appendix 3.</p>
21	ENA(On behalf of DNOs)	<p>ED Indicative Timeline:</p> <p>Licensees will notify Ofgem of their forecast COVID-19 Bad Debt values in January 2021 and will know in early April 2021 whether a supplier has ceased trading during the time it participated in the deferred network charge scheme.</p> <p>Licensees will also have a view on the bad debt incurred in time for inclusion of that information in the Revenue Reporting Pack to be submitted in July 2021, which would be consistent with the current bad debt process in the licence.</p> <p>Consequently, there should be a step in the timeline in July 2021 to allow for an adjustment to be made to revenue in the 2022/23 Regulatory Year.</p> <p>The COVID-19 Bad Debt value notified to Ofgem in January 2021 will not change because the deferred network charge scheme closes on 31 March 2021 so the step in the timeline in January 2022 (and each subsequent year) is not needed.</p>	<p>We have since received further feedback from the DNO's relating to the ED Indicative timeline, which we have accounted for in our updated indicative timeline.</p>

No.	Stakeholder	Comment	Response
22	UKPN	<p>Q1: Do you agree that our proposals would allow the recovery of bad debts, by network licensees, relating to Network Charge Deferral scheme (COVID-19) in 2021-22?</p> <p>Consulting on the principles for bad debt “true-up” in the RIGs at the same time as the statutory consultation on the licence modifications would be helpful to ensure alignment of both elements and to avoid potential delays in the process.</p>	<p>We will discuss the principles to be applied to the treatment in the RIGs of the true up of bad debt via the RRP after the statutory consultation on the ED NCD bad debt license modifications.</p>
23	WPD	<p>Q1: Do you agree that our proposals would allow the recovery of bad debts, by network licensees, relating to Network Charge Deferral scheme (COVID-19) in 2021-22?</p> <p>Ofgem should consult on the principles to be applied to the treatment in the RIGs of the “true-up” of the COVID-19 Bad Debt amount via the Revenue Reporting Pack at the same time as the statutory consultation on the licence modifications.</p>	<p>We will discuss the principles to be applied to the treatment in the RIGs of the true up of bad debt via the RRP after the statutory consultation on the ED NCD bad debt license modifications.</p>
24	WPD	<p>The ENA response makes the point on the cost of capital clearly and WPD thinks the impact will be relatively small.</p> <p>However, there is a risk that if the impact is largely caused by a large supplier or a large number of suppliers going bankrupt or even if Ofgem decide to extend the scheme there should be an alternative method or alternative provisions to allow DNOs to recover the debt more quickly.</p>	<p>We believe the risk of bankruptcy for a large supplier is significantly lower than a smaller supplier, based on the trend that has emerged since the beginning of the year, and throughout COVID-19. If such an event were to happen, we would take appropriate steps to mitigate any negative consequence.</p>

No.	Stakeholder	Comment	Response
25	Scottish Power(Supplier)	<p>If increases in network charges are announced at short notice, suppliers will be less able to pass those costs on to customers and therefore suffer a greater loss:</p> <ul style="list-style-type: none"> • In the case of customers who are subject to the default tariff cap, any change in network charges for 2021/22 needs to be notified in time for Ofgem to reflect it in the level of the cap announced on 5 February 2021. Otherwise suppliers will be unable to recover the increased costs for the price cap period April to September 2021. • In the case of customers on fixed price contracts (typically 1 or 2 years in the domestic market, and up to 3 years in the non-domestic market), the longer the notice period for charge increases, the better suppliers will be able to pass on such increases, particularly when they could not reasonably have been forecasted. <p>In this context we are concerned at the suggestion in the open letter (footnote 11) that ED licensees will have to ask the Authority for a consent for them to only give 40 days' notice of tariff changes. This would allow tariff changes to be notified up to 20 February 2021, too late to be incorporated in the default tariff cap for April to September 2021. Ofgem should make it a condition that all network charge changes (electricity and gas) are announced in time to be reflected in its 5 February tariff cap announcement.</p>	<p>We have recently published an update that discusses the level of take up of the scheme.</p> <p>https://www.ofgem.gov.uk/publications-and-updates/network-charge-deferral-update</p>
26	Scottish Power(Supplier)	<p>Ofgem should allow bad debt estimates only where network licensees can provide evidence that they have fully pursued all the options available to them for recovery of the debts. Ofgem's open letter says it would expect network companies to pursue any debt through the liquidation process but, <i>where they have sought to do this</i>, they would be able to recover outstanding bad debt within the year 2021-22.</p> <p>It would be helpful if Ofgem could provide further guidance as to what evidence it will be looking for network companies to provide, and how it will ensure that the new cost recovery arrangements do not diminish the commercial incentives on network companies to recover bad debt through existing processes.</p>	<p>This will be covered by the accompanying reporting guidance. We will consult the networks when we are developing the guidance. We would expect networks to provide an appropriate level of evidence to demonstrate that they have used their best endeavours to pursue bad debts.</p>
27	EDF	<p>Beyond the temporary NCD schemes where the criteria to provide credit has been set by Ofgem, we would not expect any change in approach to existing credit provision through the implementation of these changes to the licence. It is important that the NCD schemes are a one-off response to support the unexpected conditions caused by COVID-19 and provide no basis to modify credit provisions more generally.</p> <ul style="list-style-type: none"> • While some instances of bad debt will be completely outside the network companies' control it is important that these new licence arrangements are carefully controlled to ensure that there is still an incentive on the network companies to recover and mitigate bad debt. 	<p>Ofgem has recently published an update to outline the take up of the scheme - https://www.ofgem.gov.uk/publications-and-updates/network-charge-deferral-update</p> <p>The NCD scheme was a response to extreme and</p>

No.	Stakeholder	Comment	Response
		<ul style="list-style-type: none"> Finally it is important that with the introduction of the NCD schemes and these further planned modifications to the licence that there is adequate reporting and transparency to the market of additional credit (through NCD schemes) and levels of bad debt more generally. Currently not all network companies are providing insight on the take up of credit under NCD schemes and hence potential increased bad debt. This needs to be addressed urgently. 	unexpected circumstances. We propose that network companies must use their best endeavours explore all options in order to recover bad debt.
28	Centrica	<p>We object to the proposal to allow Electricity Distribution Network Operators (DNOs) to recover Network Charge Deferral Scheme (NCD) bad debt by changing 2021/22 DUoS tariffs.</p> <ol style="list-style-type: none"> 1. Changing 'Final' tariffs reduces market certainty, to the detriment of consumers 2. Increasing DUoS tariffs, when already expecting to over recover allowed revenue, would constitute a breach of the Distribution Licence 3. 40 days' notice will not allow the additional costs to be included in the Price Cap 	Reponses below.
29	Centrica	<p>1. Changing Final Tariffs reduces market certainty</p> <p>As you are aware, Schedule 19 of DCUSA requires DNOs to ordinarily provide 15 months' notice of tariff changes. Market participants rely on these tariffs remaining 'final' in their retail tariff offerings to end consumers.</p> <p>We acknowledge that Schedule 19 also provides for the Authority to direct a 40 day notice period – however we consider that this should only be exercised in exceptional circumstances, for example to correct a manifest error. Whilst COVID-19 itself is an exceptional issue, we do not consider the amount of NCD bad debt likely to be carried by DNOs will be exceptional.</p> <p>Therefore, we do not agree with the proposal to allow DNOs to change published 2021/22 DUoS tariffs. We consider this will undo some of the benefits identified by Ofgem when it approved DCP1781 and will add risk to future 'final' DUoS tariffs, the cost of which will ultimately be passed through to consumers. This can be avoided by allowing DNOs to recover estimated NCD bad debt in 2022/23 tariffs (subject to true-up), since these are yet to be published.</p>	We note your concerns around the use of Schedule 19. The NCD scheme and the subsequent bad debt that networks will need to recover is a response to the exceptional circumstances faced by the industry as a result of COVID-19. While we accept that changes to tariffs at late notice will reduce certainty and predictability for suppliers, on balance, we do not anticipate these amounts to be material.

No.	Stakeholder	Comment	Response
30	Centrica	<p>2. Increasing DUoS tariffs, when already expecting to over recover allowed revenue, would constitute a breach of the Distribution Licence</p> <p>Under Charge Restriction Condition 2A of the Distribution Licence (Restriction of Allowed Distribution Network Revenue), DNOs are obliged to set tariffs to ensure that recovered revenue does not exceed allowed revenue:</p> <ul style="list-style-type: none"> • 2A.2 - The licensee, in setting Use of System Charges, must use its reasonable endeavours to ensure that, in Regulatory Year t, Regulated Distribution Network Revenue does not exceed its Allowed Distribution Network Revenue. <p>We consider it would be a clear breach of Charge Restriction Condition 2A.2 if a DNO increased DUoS tariffs when it already expected to over recover allowed revenue under current tariffs.</p> <p>Therefore, if Ofgem is minded to consider requests by DNOs to change 2021/22 tariffs, we believe consent must be limited to those DNOs who provide assurance to Ofgem that such revised tariffs are compliant with Charge Restriction Condition 2A.2 and will not result in an over recovery of 2021/22 allowed revenue.</p>	<p>Point noted. We will bear in mind the licensees' obligations under CRC 2A if and when we issue any consents in relation to our proposals.</p>
31	Centrica	<p>3. 40 days' notice will not allow the additional costs to be included in the Price Cap</p> <p>The proposed 40 days' notice for DUoS Tariff Changes will also be too late to incorporate into the Summer 2021 Price Cap. Efficient suppliers must be able to recover their costs and therefore we seek assurance from Ofgem that any additional amounts to be recovered in 2021/22 DUoS tariffs will be fully recoverable through the Default Tariff Cap.</p>	<p>We note your concerns around the use of Schedule 19. The NCD scheme and the subsequent bad debt that networks will need to recover is a response to the exceptional circumstances faced by the industry as a result of COVID-19. While we accept that changes to tariffs at late notice will reduce certainty and predicability for suppliers, on balance, we do not anticipate these amounts to be material.</p> <p>Updated charges published in Mid-Late January should provide enough notice to be included within the price cap.</p>
32	Bulb	<p>1. Customer costs.</p> <p>Any cost increases for suppliers will likely be passed through to consumers during 2021/22. This will be at a</p>	<p>Given the scale of take up of the scheme, we believe this</p>

No.	Stakeholder	Comment	Response
		time when the British economy has not recovered fully, unemployment could still be high and consumers may be struggling to make payments to their energy supplier	scheme will have a very low impact on consumer cost.
33	Bulb	<p>2. Supplier liquidity.</p> <p>Requiring solvent suppliers like Bulb to pay off the bad debts of suppliers who used the scheme but who have not met its payment terms during just 2021/22 could worsen the liquidity situation of those solvent suppliers. At this point, there is no certainty that either Ofgem or Government support will be available during spring 2021 to alleviate these liquidity issues.</p>	We expect network companies will use their best endeavours explore all options in order to recover bad debt.
34	Bulb	<p>3. Simplicity</p> <p>Ofgem's proposed approach of estimating and then reconciling bad debt faced by the networks creates uncertainty for well-run suppliers like Bulb. The more that Ofgem recalculates and reconciles these numbers, the more rework required by suppliers for no discernible benefit.</p>	Given the scale of take up of the scheme, we believe this scheme will have a very low impact on all suppliers.
35	Bulb	<p>It would give more certainty to suppliers if the changes to charges caused by bad debt were based on actual data rather than estimates that later need to be restated. This allows suppliers to better manage their finances and avoid some of the issues set out above.</p> <p>Our preference is for the debt to be recovered over the whole price control period. For gas distribution, this would mean 2021 to 2026. For electricity distribution, this would mean 2023 to 2028. Ofgem has already proposed incorporating bad debt from this price control into the next price control period for gas. For consistency, the same approach should apply for electricity.</p> <p>Looking at the proposals considered by Ofgem, we do not see an option which involves the networks absorbing some of the bad debt, as suppliers and other market participants have. We would welcome Ofgem reviewing the relative allocation of scheme bad debt between suppliers and the networks. It is unclear to us whether all of the bad debt should be paid for by solvent suppliers in 2021-22.</p>	Estimates will be based on data of the known amounts of network charges deferred by suppliers, and will be more accurate with new information.

No.	Stakeholder	Comment	Response
36	Energy UK	<p>For electricity charging, we are concerned that suppliers will be materially impacted by the proposals.</p> <p>We understand that the proposals will increase network charges from April 2021 at significantly shorter notice than normal. Indeed, Ofgem notes in footnote 11 that Electricity Distribution licensees will have to ask the Authority for a consent for them to only give 40 days' notice of tariff changes (which would allow tariff changes to be notified up to 20 February 2021). This will result in a financial impact to suppliers with customers on fixed term tariffs as they are unable to pass those charges onto customers. Short-notice changes will also not be able to be factored into the Default Tariff Cap if made after the date that the cap level is set. This is not acceptable as it would systematically prevent efficient suppliers from recovering their costs. We, therefore, ask that Ofgem:</p> <ol style="list-style-type: none"> 1. Seeks to mitigate the increase as much as possible to limit this financial impact, ideally sharing the pain between suppliers and networks, 2. Requires Electricity Distribution licensees to give sufficient notice so that changes can be reflected in tariff cap levels announced on 7 February 2021, and 3. Considers spreading any mutualisation costs across the entire price control period (not just 2021-22). <p>Such quick clawback of network charge bad debt could also see network companies over-recovering if they subsequently receive some payback from the failed supplier's administrator. While we assume that network companies will adjust in subsequent years for this, we would welcome clarity as to what arrangements will be in place if network companies subsequently receive some of the debt that they had declared as bad debt.</p>	<p>We do not believe suppliers will be materially impacted by these proposals given the scale of the scheme. An update on the schemes uptake can be found here:</p> <p>https://www.ofgem.gov.uk/publications-and-updates/network-charge-deferral-update.</p>

Appendix 2. – Notice of statutory consultation

To: **Electricity North West Ltd (ENWL)**
Northern Powergrid (Northeast) plc (NPgN)
Northern Powergrid (Yorkshire) plc (NPgY)
London Power Networks plc (LPN)
South Eastern Power Networks plc (SPN)
Eastern Power Networks plc (EPN)
SP Distribution plc (SPD)
SP Manweb plc (SPMW)
Scottish Hydro Electric Power Distribution plc (SSEH)
Southern Electric Power Distribution plc (SSES)
Western Power Distribution (West Midlands) plc (WMID)
Western Power Distribution (East Midlands) plc (EMID)
Western Power Distribution (South Wales) plc (SWALES)
Western Power Distribution (South West) plc (SWEST)

Electricity Act 1989 Section 11A(2)

Notice of statutory consultation on a proposal to modify the special conditions (also known as the Charge Restriction Conditions) electricity distribution licence held by the above licensees

1. The Gas and Electricity Markets Authority ('the Authority')⁵ proposes to modify the special conditions electricity distribution licences granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act') to the above licensees by amending the CRC 2B in the manner set out in Appendix 3.
2. The Authority considers that it is necessary to modify the special conditions electricity distribution licences in the manner indicated to ensure that the licensees are not adversely impacted by potential bad debt arising from the NCD scheme. We stated our intent to propose licence modifications to enable licensees to recover outstanding bad debt resultant from the NCD scheme within the year 2021-22 in our open letter, published on 2 June 2020.
3. The effect of the proposed modifications is to allow the licensees identified above, to recover network charge bad debt resultant from the Network Charge Deferral scheme as a pass-through item. Network companies are firstly expected to pursue any debt through the liquidation process and where they have sought to do this, licensees will be able to recover outstanding bad debt within the year 2021-22. Such bad debt will be net of interest income accrued at the default interest rate set out in the Distribution Connection and Use of System Agreement (DCUSA).⁶
4. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk) or alternatively can be requested using email: foi@ofgem.gov.uk
5. Any representations with respect to the proposed licence modifications must be made on or before **9 November 2020**. Representations should be sent to Mick Watson at Ofgem, 10 South Colonnade, Canary Wharf, London, E14 4PU, or by email to regfinance@ofgem.gov.uk.

⁵ The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

⁶ Distribution Connection and Use of System Agreement(DCUSA) - <https://www.dcusa.co.uk/dcusa-document/>

6. We normally publish all representations on our website. If you do not wish your response to be published please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be published easily on our website.

7. If we decide to make the proposed modification, it will take effect not less than 56 days after the decision is published.

.....
Steve McMahon

A handwritten signature in black ink, appearing to read 'Steve McMahon', written over a horizontal line.

Deputy Director, Systems & Networks
Duly Authorised on behalf of the Gas and Electricity Markets Authority
12 October 2020

Appendix 3. - Proposed modifications to the Special Licence Conditions

The following changes apply to all holders of an electricity distribution licence **in principle**. The drafting example below applies to the Charge restriction conditions for all licensees however individual paragraph references may vary from one licensee to another due to slight differences in the structure of the licence:

CRC 2B. Calculation of Allowed Pass-Through Items

Introduction

- 2B.1 This condition sets out the calculation of the amount of the term PT (the allowed pass-through term) that applies in CRC 2A (Restriction of Allowed Distribution Network Revenue).
- 2B.2 The allowed pass-through term in CRC 2A amends the licensee's Allowed Distribution Network Revenue so as to allow certain costs as specified below to be passed through to users of the licensee's Distribution System through Use of System Charges.

Part A: Calculation of Allowed Pass-Through Items (PT)

- 2B.3 For the purposes of Part B of CRC 2A, which establishes the calculation of Allowed Distribution Network Revenue, the total amount of the PT term is calculated in accordance with the following formula (in this condition, the Principal Formula)⁷:

$$PT_t = LF_t + RB_t + TB_t + SMC_t + SMIT_t + RF_t + SLR_t + EBD_t + \underline{CBD_t}$$

- 2B.4 In the Principal Formula:

- LF_t means the licence fee adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part B of this condition.
- RB_t means the Business Rates adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part C of this condition.
- TB_t means the Transmission Connection Point Charges adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part D of this condition.
- SMC_t means the Smart Meter Communication Licensee Costs adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part E of this condition.
- $SMIT_t$ means the Smart Meter Information Technology Costs adjustment in Regulatory Year t, as derived in accordance with the formula set out in Part F of this condition.

⁷ All terms are in nominal terms.

- RF_t means the Ring Fence Costs adjustment in Regulatory Year t, as derived in accordance with Part G of this condition.
- SLR_t means the Supplier of Last Resort Costs adjustment in Regulatory Year t in accordance with Part H of this condition.
- EBD_t means the Eligible Bad Debt Costs adjustment in Regulatory Year t in accordance with Part I of this condition.
- CBD_t is derived in accordance with Part J of this condition.

Part J: Calculation of the COVID-19 Bad Debt term (CBD_t)

2B.45 The value of CBD_t (the COVID-19 Bad Debt term) is derived in accordance with the following formulae:

(a) For Regulatory Year 2021/22:

$$\mathbf{CBD_t = \frac{PCBD_{t-1}}{RPIA_{t-1}} \times PVF_{t-1} \times RPIF_t}$$

(b) For Regulatory Years 2022/23:

$$\mathbf{CBD_t = \left(\frac{(CBDA_{t-2} - PCBD_{t-2} - RCBD_{t-2})}{RPIA_{t-2}} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t}$$

(c) For Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21, CBD_t has a value of zero.

2B.46 In the above formulae for CBD_t :

$CBDA_{t-2}$ means the aggregate value of COVID-19 Bad Debt the licensee has incurred in Regulatory Year t-2 inclusive of Late Payment Interest.

$PCBD$ means the aggregate value of provisional COVID-19 Bad Debt the licensee expects to incur in Regulatory Year 2020/21 inclusive of Late Payment Interest and notified to the Authority under paragraph 2B.47 of this condition.

$RCBD_{t-2}$ means any amount the licensee has been credited by the administrator or liquidator of a COVID-19 Defaulting Electricity Supplier.

$RPIA_t$ has the value given to it by Part C of CRC 2A.

PVF_t has the value given to it by Part C of CRC 2A.

RPIF_t has the value given to it by Part C of CRC 2A.

2B.47 Where the licensee expects to incur COVID-19 Bad Debt, the licensee must, by 12 January 2021, notify the Authority of:

(i) the amount of COVID-19 Bad Debt the licensee expects to incur; and

(ii) the amount of Late Payment Interest the licensee expects to receive in respect of that amount of COVID-19 Bad Debt.

2B.48 The licensee must submit a notification to the Authority under CRC 2B.47 for each COVID-19 Defaulting Electricity Supplier and, where more than one such notification is submitted, the PCBD term will reflect the aggregate value of such notifications.

2B.49 Where the licensee does not submit a notification to the Authority under CRC 2B.47 of this condition, the PCBD value will be equal to zero.

Part J: Interpretation

2B.50 For the purposes of this condition:

Business Rates

means:

(a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988 (or any legislation amending or replacing those enactments); or

(b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government (Scotland) Act 1975 or the Local Government (Scotland) Act 1994 (or any legislation amending or replacing those enactments).

Cost of Capital

means the Vanilla Weighted Average Cost of Capital for the licensee as derived by the Authority in accordance with the Annual Iteration Process applicable to the Regulatory Year 2020/21.

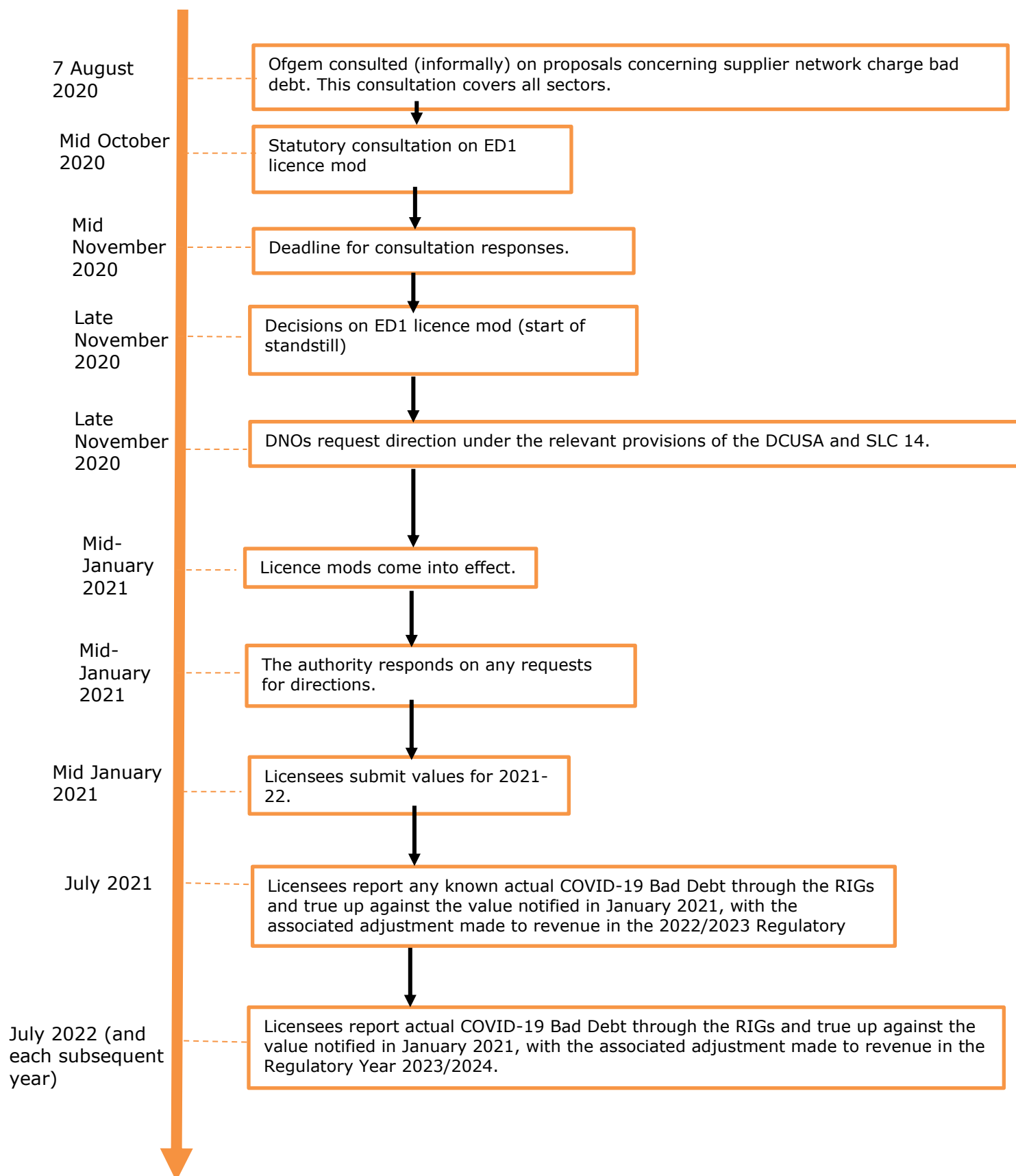
COVID-19 Bad Debt

means bad debt with respect to Use of System Charges owed to the licensee by one or more COVID-19 Defaulting Electricity Suppliers.

<u>COVID-19 Defaulting Electricity Supplier</u>	<u>means an Electricity Supplier who participated in the COVID-19 Scheme and whose insolvency has resulted in the licensee incurring bad debt. The timing and definition of insolvency is as per the Insolvency Act 1986.</u>
<u>COVID-19 Scheme</u>	<u>means the COVID-19 Optional Use of System Charges Extended Payment Terms Scheme that was in operation from 9 June 2020.</u>
Elective Communication Services	has the meaning given to that term in the Smart Energy Code.
Defaulting Electricity Supplier	means an Electricity Supplier whose insolvency or liquidation has resulted in the licensee incurring bad debt. The timing and meaning of insolvency and liquidation should be interpreted in accordance with section 257 and the first Group of Parts of the Insolvency Act 1986.
Final Reconciliation Settlement Run	has the meaning given to that term in Section U2.3 of the Balancing and Settlement Code (BSC).
Former Electricity Supplier	means an Electricity Supplier whose supply licence has been revoked.
<u>Late Payment Interest</u>	<u>means interest income accrued at the default interest rate set out in the Distribution Connection and Use of System Agreement as a result of the participation of Electricity Suppliers in the COVID-19 Scheme, net of the Cost of Capital.</u>
Pass-through Transmission Connection Point Charges	means those elements of Transmission Connection Point Charges that do not qualify as New Transmission Capacity Charges.
Returned Costs	means costs received by the licensee from a Claimant relating to the restatement of a Valid Claim under standard condition 38B (Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019), standard condition 38A (Treatment of unresolved payment claims for last-resort supply where Valid Claim is received before 1 April 2019), or standard condition 38 (Treatment of payment claims for last-resort supply) including, but not limited to, the difference between actual and estimated costs, where the Claimant was credited by the administrator of a Former Electricity Supplier, in relation to whose customers the Claimant has been appointed as Supplier of Last Resort, and where the Claimant subsequently made a Valid Claim to recover a proportion of those recovered costs.

Ring Fence Costs	<p>means the amount of the incremental costs necessarily incurred by the licensee in Regulatory Year t-2 as a direct result of complying with the additional regulatory requirements referred to in the Authority's letter dated 1 February 2013 entitled “Modifications to the ring fence conditions in network operator licences” and published on the Authority's Website, provided that those costs:</p> <p>(a) have been ascertained in accordance with the RIGs referred to in standard condition 46 (Regulatory Instructions and Guidance); and</p> <p>(b) have not been otherwise remunerated under any other provision of this licence.</p>
Smart Energy Code	<p>means the document of that name referred to in standard condition 21A (The Smart Energy Code), that is maintained for the purposes of that condition and is subject to modification pursuant to Condition 23 (Change control for Smart Energy Code), of the Smart Meter Communication Licence.</p>
Smart Meter Communication Licence	<p>means the licences granted under section 6(1A) of the Act and section 7AB(2) of the Gas Act 1986.</p>
Smart Meter Communication Licensee Costs	<p>means charges payable by the licensee (by virtue of the requirement for it to be a party to the Smart Energy Code) to the holder of the Smart Meter Communication Licence in accordance with section J of the Smart Energy Code, excluding any charges in respect of Elective Communication Services.</p>
Smart Meter Information Technology Costs	<p>means any information technology costs that the licensee reasonably incurs that are necessary to enable the licensee to use data from Smart Meters (within the meaning given to that term in Condition 1 of the Smart Meter Communication Licence) effectively for the efficient and economic operation, maintenance and development of its Distribution System, as further clarified in the RIGs.</p>
<u>Vanilla Weighted Average Cost of Capital</u>	<p><u>has the meaning given to that term in the glossary of the ED1 Price Control Financial Handbook.</u></p>

Appendix 4. – ED Indicative Timeline.⁸



⁸ Please note this timeline is indicative and may be subject to change.