



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: 20 November 2020

To interested parties,

**Decision to modify the Special Conditions (also known as the Charge Restriction Conditions 'CRC') of the electricity distribution licence to recover bad debt resulting from the Network Charge Deferral (NCD) scheme.**

On 7 August 2020 we published an open letter in which we set out options to modify the Electricity Distribution Licence.<sup>1</sup> This was followed by a statutory consultation on 12 October 2020.<sup>2</sup> The purpose of our consultation was to seek views on our proposed approach to enable electricity distribution network operators (DNOs) to recover any potential bad debts arising as a direct result of the Network Charge Deferral scheme in the year 2021-22.

This letter explains the relevant background, summarises responses to our statutory consultation and, having considered those responses, sets out our decision to modify the Electricity Distribution Licence.

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<sup>1</sup> Managing Network Charge Bad Debt - <https://www.ofgem.gov.uk/publications-and-updates/managing-network-charge-bad-debt-0>

<sup>2</sup> Statutory consultation on proposed changes to the Special Conditions (also known as the Charge Restriction Conditions 'CRC') of the electricity distribution licence - <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-changes-special-conditions-also-known-charge-restriction-conditions-crc-electricity-distribution-licence>

## 1. Background

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 scheme<sup>3</sup>, 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 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 debt arising as a direct result of that scheme in the year 2021-22. The options we outlined in this open letter for electricity distribution were:

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

In our statutory consultation, we proposed to introduce option 3. We explained that option 3 would allow the recovery of bad debt costs directly resulting from the NCD scheme only. We noted that we considered option 3 to be the simplest way to modify the licence conditions in comparison to options 1 and 2. Option 3 avoids the complexities of modifying the EBDt term, and allows for the recovery of NCD specific bad debt in 2021-22 through the CBDt term. The majority of responses to our consultation agree that option 3 is an appropriate solution to recover bad debt. Further background and details can be found in our statutory consultation.

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<sup>3</sup> 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](https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_1.pdf)

## 2. Summary of Proposed changes

In light of the positive responses to our consultation, we have decided to modify the Special Licence Conditions of the electricity distribution licences held by the DNOs by introducing a new Network Charge Deferral (NCD) specific bad debt term (CBDt), similar to existing business rates and licence fee terms in the Special Conditions of the electricity distribution licence. We have decided that the CBDt term will be an additional pass-through item<sup>4</sup> within the CRC 2B (Calculation of Allowed Pass-through items) Principal Formula. The CBDt term will 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 will allow the recovery of bad debt costs directly resulting from the NCD scheme only.

## 3. Changes to proposed licence drafting since the statutory consultation

Having fully considered respondents' views we propose to make a number of minor changes to the drafting set out in our statutory consultation. The main changes are as follows:

- CRC 2B.3 – to remove unnecessary footnote regarding terms being nominal
- CRC 2B.45(b) – to correct for typographical error, as CRC 2B.45(b) only refers to a single year
- CRC 2B.46 – to ensure consistency, added a subscript 't' to the 'PCBD' term.
- CRC 2B.47 – to ensure the notification date is not before the date this licence modification becomes effective, we have changed the notification date to 15<sup>th</sup> January 2021
- CRC 2B.50 – to add clarity to the 'COVID-19 Scheme' definition, we have set out the full name of the scheme, and refer to a document of the same name that details the scheme and is published on the ENA website.<sup>5</sup>

All changes are highlighted in yellow in Annex 3.

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<sup>4</sup> 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.

<sup>5</sup> Distribution Network Operators' ("DNOs") Covid-19 Optional Use of System Charges Extended Payment Terms Scheme (the "Scheme") - [https://www.energynetworks.org/assets/images/Resource%20library/SupplierCredit\\_DNO\\_terms.pdf](https://www.energynetworks.org/assets/images/Resource%20library/SupplierCredit_DNO_terms.pdf)

#### 4. **Structure of this decision document**

There are four annexes to this letter:

- Annex 1 sets out our responses to the issues raised by parties in response to our proposals in the 'Statutory consultation on proposed changes to the Special Conditions (also known as the Charge Restriction Conditions 'CRC') of the electricity distribution licence'.
- Annex 2A to this letter sets out our Notice of our decision to modify the Special Conditions of Electricity Distribution Licences to enable DNOs to recover bad debt arising as a direct result of the Network Charge Deferral scheme.
- Annex 2B contains a list of all relevant licence holders.
- Annex 3 to this letter sets out the changes to the relevant Special Conditions of the Electricity Distribution Licence.

If you have any questions regarding this decision, please contact [regfinance@ofgem.gov.uk](mailto:regfinance@ofgem.gov.uk).

Yours faithfully,

**Steve McMahon**



**Deputy Director, Networks**



## Annex 1 - Respondents' views and Ofgem's responses

We received 8 responses to our statutory consultation published on 12 October 2020. The responses that were marked as non-confidential have been published on our website.

We have summarised all of the non-confidential responses along with our views on the points raised.

The majority of responses support our view that the proposed drafting within the statutory consultation was an appropriate solution to recover bad debt. We have considered the responses to our statutory consultation, and where appropriate we have amended our final drafting in Annex 3.

No.	Comment from	Reference (Part X, Para Y)	Comment	Response
1	Scottish Power	2B.45(b)	The truing-up equation in paragraph 2B.45(b) for 2022/23 subtracts the quantity RCBDt-2, which we assume refers to amounts credited by an administrator or liquidator in 2020/21. If so, we wonder whether the true-up for 2022/23 should not also take account of any amounts credited by an administrator or liquidator in 2021/22 in respect of the same NCD debt?	Our equation is in-line with previous approaches. See the EBD term within CRC 2B, part I.

No.	Comment from	Reference (Part X, Para Y)	Comment	Response
2	Scottish Power	2B.46	There is an inconsistency between the formula in paragraph 2B.45, which refers to PCBDt-1 and PCBDt-2 (ie with a subscript) and the definition in paragraph 2B.46 which refers to PCBD (no subscript). Since the PCBD term is only defined in Regulatory Year 20/21, this could be fixed by removing the subscript in paragraph 2B.45. Alternatively, the definition could be amended to show a subscript t.	Added a subscript t to PCBD.
3	Scottish Power	2B.47	Paragraph 2B.47 (ii) refers to "the amount of Late Payment Interest the licensee expects to receive in respect of that amount of COVID-19 Bad Debt." We wonder whether 'expects to receive' is correct in this context, since if this amount is to form part of the bad debt allowance, the supplier must surely not expect to receive it?	This is correct in context, as the licensee would anticipate an amount of Late Payment Interest given an amount of COVID-19 Bad Debt.

No.	Comment from	Reference (Part X, Para Y)	Comment	Response
4	Scottish Power	Timeline	<p>Timeline for costs to be reflected in default tariff cap</p> <p>In our response of 4 September to your open letter consultation we expressed concern at the suggestion (footnote 11 of open letter) 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. We suggested that 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. (See Appendix 1, #25). Ofgem responds to a similar point from Centrica (#31) that</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 predictability for suppliers, on balance, we do not anticipate these amounts to be material. Updated charges published in Mid-Late January should provide enough notice to be included within the price cap."</p> <p>This does not appear to provide the level of reassurance that suppliers can reasonably expect, given the existence of the price cap. <b>We believe there should be an additional obligation on licensees to publish updated charges no later than, say, 31 January 2021, as a condition of being able to recover NCD bad debt costs in Regulatory Year 2021/22.</b></p>	<p>We note your concern, however we do not anticipate the changes to tariffs and the price cap to be material.</p> <p>We have recently published an update that discusses the level of take up of the scheme. <a href="https://www.ofgem.gov.uk/publications-and-updates/network-charge-deferral-update">https://www.ofgem.gov.uk/publications-and-updates/network-charge-deferral-update</a></p>



No.	Comment from	Reference (Part X, Para Y)	Comment	Response
5	Scottish Power	General	<p>Advance notice of bad debt costs</p> <p>We welcome the steps Ofgem has taken to provide updates on the number of suppliers making use of the NCD scheme and the overall value. As noted in our previous response, the uncertainty over the level of NCD bad debt uplift makes business planning difficult. We would request that Ofgem provide further, more granular updates showing:</p> <ul style="list-style-type: none"> <li>• how the amount splits between type of network charge (electricity, gas, transmission, distribution);</li> <li>• how the amount splits between companies which are still trading and those (if any) which have ceased trading.</li> </ul>	We will consider further updates.
6	SPEN	General	<p>I am writing in relation to your consultation on the licence changes required to recover potential bad debts from the Network Charge Deferral (NCD) scheme. SPEN previously contacted you via the ENA's Open Letter dated 4<sup>th</sup> September 2020 and at this point, <b>we have no further representations we wish to make.</b> We support Ofgem's preferred option (Option 3) and we look forward to Ofgem consulting on the RIGs treatment in due course.</p>	No action needed.
7	NPG	2B.45(b)	<p>Further to the notice of statutory consultation dated 12 October 2020, Northern Powergrid has no representations to make in respect of the modifications proposed to CRC2B of the electricity distribution licence, which will enable licensees to recover outstanding bad debt resulting from the Network Charge Deferral Scheme in the 2021/2022 Regulatory Year. We would, however, point out that <b>"Years" should be singular in paragraph 2B.45(b) of Part J.</b></p>	Amended.

No.	Comment from	Reference (Part X, Para Y)	Comment	Response
8	NPG	RIGS	<p>In its letters to Ofgem of 21 August 2020, 4 September 2020 and 25 September 2020, the Energy Networks Association made the point, on behalf of the Distribution Network Operators, that Ofgem should consult on the principles to be applied to the treatment in the RIGs of the "true-up" amount via the Revenue Reporting Pack at the same time as the statutory consultation on the licence modifications.</p> <p>We were, therefore, disappointed to note that Ofgem chose not to do so and, instead, merely stated in its summary of responses to the August consultation that it would only undertake that consultation "after" this statutory consultation.</p> <p>We would reiterate that point once again and look to Ofgem to confirm that it will commence that consultation without further delay.</p>	Noted, 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 this Decision document has been published.
9	UKPN	2B.3	2B.3 - Includes a footnote referring to terms being nominal. We do not believe this footnote is actually part of the licence condition and should be removed.	Amended.
10	ENWL	2B.45	We are comfortable with the drafting, although there is uncertainty currently on how long the COVID-19 pandemic will last. As a result, there <b>might be a need to extend the recovery of bad debt beyond year 2022/23 and RIIO-ED1. For this reason, it would be useful if the formula for beyond year 2021/22 was written in a way that does not make reference to specific years.</b>	We will keep the need for Covid-19 bad debt provisions beyond the period provided for in this decision under review.

No.	Comment from	Reference (Part X, Para Y)	Comment	Response
11	Unite the Union	General	<p>Unite feels that the current Government's mismanagement of the current crisis has created far more bad debt than would normally occur in a year. The surge in unemployment and redundancies will inevitably create more bad debt.</p> <p>With Brexit on the horizon, the uncertainty that this has also created has the potential to add to the problem. This too could lead to further job losses and yet more bad debt.</p> <p>Unite believes it is therefore, reasonable to give the energy suppliers more time to pay their debts off and for the April 2021 increases to be delayed until April 2022 at the earliest. Hopefully by then the country will be back on its feet.</p>	<p>We understand this is a difficult time for many, however given the scale of the take up of the scheme, we believe this scheme will have a very low impact on consumer cost.</p> <p>We have recently published an update that discusses the level of take up of the scheme. <a href="https://www.ofgem.gov.uk/publications-and-updates/network-charge-deferral-update">https://www.ofgem.gov.uk/publications-and-updates/network-charge-deferral-update</a></p>
12	SSEN		<p>In terms of the proposed changes to Charge Restriction Condition 2B (Calculation of Allowed Pass-Through Items) shared on 12 October 2020, we have two minor corrections / observations to flag. In Part J, which sets out the new calculation for the COVID-19 Bad Debt pass-through term (CBDt), we note the following:</p> <ol style="list-style-type: none"> <li>1. Text in paragraph 2B.45 (b) should be amended as follows: "For Regulatory Year 2022/23"; and</li> <li>2. The definition of "COVID-19 Scheme" in paragraph 2B.50 appears to introduce a new(capitalised) term ("COVID-19 Optional Use of System Charges Extended Payment Terms Scheme") which itself is not defined.</li> </ol>	<ol style="list-style-type: none"> <li>1. Amended.</li> <li>2. This is the official name of what is commonly referred to as the 'Network Charge Deferral (NCD) scheme'. However, for clarity in the definition of 'COVID-19 Scheme' we have added reference to an ENA document detailing the scheme.</li> </ol>

<b>No.</b>	<b>Comment from</b>	<b>Reference (Part X, Para Y)</b>	<b>Comment</b>	<b>Response</b>
13	Western Power		We note that Ofgem is intending to consult on consequential changes to the RIGs in relation to the principles to be applied to the treatment in the RIGs of the true up of bad debt via the RRP. We would urge Ofgem to start this work as a matter of urgency.	Noted, 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 this Decision document has been published.



## **Annex 2A – Notice of direction to modify the special conditions of the electricity distribution licences**

**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(1)(a)**

#### **Modification of the Special Licence Conditions (also known as the Charge Restriction Conditions) of the electricity distribution licence held by the above licensees**

1. Each of the licensees to whom this is addressed ('the licensee') is the holder of an electricity distribution licence ('the licence') granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act, the Gas and Electricity Markets Authority ('the Authority')<sup>6</sup> gave notice on 12 October 2020 ('the Notice') that it proposed to modify CRC 2B (Calculation of Allowed Pass-through items) of the licence in the manner set out in Appendix 3 of the Notice. We stated that any representations to the modification proposal must be made on or before 9 November 2020.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received eight non-confidential responses to the Notice, which we carefully considered. We have placed these on our website. Our response to these comments is set out in the accompanying letter to the Notice.
5. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in yellow highlight in the attached Annex 3. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in Annex 3 are to correct typographical

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<sup>6</sup> 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.

errors, address minor issues and some other corrections raised in consultation responses. The details of the changes are explained in the accompanying letter to the Notice.

6. The Authority considers that it is necessary to modify these conditions 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.
7. The main effect of these 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).<sup>7</sup>
8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2.<sup>8</sup> The attached Annex 2B provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.
9. Under our powers set out in sections 11A(1)(a) of the Act, we hereby modify the Special Conditions of the electricity distribution licences held by the above licensees as set out in Annex 3. This decision will take effect from 15 January 2020.
10. This document is notice of the reasons for the decision to modify the electricity distribution licences held by the above specified licensees as required by section 49A(2) of the Act.

**Steve McMahon**



**Deputy Director, Networks**

**Duly Authorised on behalf of the Gas and Electricity Markets Authority  
20 NOVEMBER 2020**

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<sup>7</sup> Distribution Connection and Use of System Agreement(DCUSA) - <https://www.dcusa.co.uk/dcusa-document/>

<sup>8</sup> CMA70 -

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/655601/energylicence-modification-appeals-rules.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energylicence-modification-appeals-rules.pdf)

## Annex 2B - List of Relevant Licence Holders

Eastern Power Networks Plc
Electricity North West Limited
London Power Networks Plc
Northern Powergrid (Northeast) Plc
Northern Powergrid (Yorkshire) Plc
Scottish Hydro Electric Power Distribution Plc
South Eastern Power Networks Plc
Southern Electric Power Distribution Plc
SP Distribution Plc
SP Manweb Plc
Western Power Distribution (East Midlands) Plc
Western Power Distribution (South Wales) Plc
Western Power Distribution (South West) Plc
Western Power Distribution (West Midlands) Plc

All electricity and gas licence holders are listed on our website. Electricity licence holders are listed at: <https://www.ofgem.gov.uk/publications-and-updates/all-electricity-licensees-registered-addresses>.



## Annex 3 - Proposed modifications to the Special Licence Conditions

The following changes apply to all holders of an electricity distribution licence. The drafting example below applies to the CRCs 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)<sup>9</sup>:

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

- 2B.4 In the Principal Formula:

LF <sub>t</sub>	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 <sub>t</sub>	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 <sub>t</sub>	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 <sub>t</sub>	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 <sub>t</sub>	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.
RF <sub>t</sub>	means the Ring Fence Costs adjustment in Regulatory Year t, as derived in accordance with Part G of this condition.
SLR <sub>t</sub>	means the Supplier of Last Resort Costs adjustment in Regulatory Year t in accordance with Part H of this condition.

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<sup>9</sup>-All terms are in nominal terms.

EBD<sub>t</sub> means the Eligible Bad Debt Costs adjustment in Regulatory Year t in accordance with Part I of this condition.

CBD<sub>t</sub> is derived in accordance with Part J of this condition.

### **Part J: Calculation of the COVID-19 Bad Debt term (CBDt)**

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

(a) For Regulatory Year 2021/22:

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

(b) For Regulatory Year 2022/23:

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

(c) For Regulatory Years 2015/16, 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21,

CBDt has a value of zero.

2B.46 In the above formulae for CBDt:

CBDA<sub>t-2</sub> means the aggregate value of COVID-19 Bad Debt the licensee has incurred in Regulatory Year t-2 inclusive of Late Payment Interest.

PCBD<sub>t</sub> 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<sub>t-2</sub> means any amount the licensee has been credited by the administrator or liquidator of a COVID-19 Defaulting Electricity Supplier.

RPIA<sub>t</sub> has the value given to it by Part C of CRC 2A.

PVF<sub>t</sub> has the value given to it by Part C of CRC 2A.

RPIF<sub>t</sub> 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 152 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 <b>Distribution Network Operators' ("DNOs") Covid-19 Optional Use of System Charges Extended Payment Terms Scheme (the "Scheme")</b> that was in operation from 9 June 2020, <b>and a document of that name is published on the Energy Networks Association's website.</b></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	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: <ul style="list-style-type: none"> <li>(a) have been ascertained in accordance with the RIGs referred to in standard condition 46 (Regulatory Instructions and Guidance); and</li> <li>(b) have not been otherwise remunerated under any other provision of this licence.</li> </ul>
Smart Energy Code	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.
Smart Meter Communication Licence	means the licences granted under section 6(1A) of the Act and section 7AB(2) of the Gas Act 1986.
Smart Meter Communication Licensee Costs	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.

Smart Meter  
Information  
Technology Costs

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.

Vanilla Weighted  
Average Cost of  
Capital

has the meaning given to that term in the glossary of the ED1  
Price Control Financial Handbook.