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Dear Grant

Statutory consultation on modifications to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort

Thank you for giving us the opportunity to provide our views on the proposed modifications to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort.

We are supportive of changes in this area as we recognise the issues associated with the current approach. Processing Supplier of Last Resort Payment Claims under the proposed approach would be clearer and simpler than currently, as the need to request directions and derogations would be removed in most cases. The proposed arrangements also provide an effective process for dealing with any under or over recovery of payment claim amounts.

Cashflow risks for Distribution Network Operators

We continue to have concerns that the proposed changes introduce a cashflow risk for DNOs that is entirely outside their control. This cashflow risk occurs because DNOs would be required to pay claimants in advance of the recovery of the claim amounts through increased Use of System charges. However, we do recognise that the introduction of a Materiality Threshold provides protection from adverse cashflow impacts in the case of very large payment claims.

We also recognise that you have considered a number of proposals to reduce this risk exposure for network operators, and have concluded that any of these proposals would shift the balance of risk between suppliers and network operators too far towards suppliers. While we agree with your judgement that some of the proposals would shift risk from network operators to suppliers, we see this as an appropriate outcome as it better reflects the industry parties that give rise to the risk.

In the responses to the previous consultation, we suggested a proposal to allow network operators to reflect a prudent level of potential LRSP amount in their allowed revenue forecast which would result in a reasonable balance of risk, as it would not directly place any burden on the Supplier of Last Resort, or result in the change of Use of System charges at short notice. This proposal would allow DNOs to hold a reasonable balance to use in the event of the short notice cashflow risk we have identified materialising. We are disappointed that you have decided to discount this suggestion and would therefore ask that you reconsider this proposal as it seems to strike a reasonable balance of risk between parties while providing a means for DNOs to mitigate the risks they are being asked to bear under the proposed changes. Without this explicit mechanism it is unclear if DNOs could

reasonably forecast an amount of SoLR payment that is likely to be payable in the charging year.

Equal treatment of IDNOs and DNOs with respect to Bad Debt

We agree with the aim of ensuring IDNOs are treated on an equivalent basis to DNOs with respect to Bad Debt. We accept that both are licensed businesses that do not have the ability to influence which suppliers operate on their networks, and so both should have a mechanism to recover bad debt resulting from a supplier failure.

We do not feel the proposed licence drafting achieves the objective of equal treatment. Our concern is that IDNOs have a mechanism to recover bad debt costs more quickly under SLC38C than DNOs would have under the changes made to CRC 2A and CRC 2B. This would seem to introduce a distortion of competition in the distribution of electricity between DNOs and IDNOs. This could be easily addressed by DNOs paying IDNOs following a receipt of a DNO receiving a valid claim from an IDNO in the same timescales that a DNO is able to recover these payments through DUoS charges.

We therefore propose the following amendment to the licence drafting as follows:

38C.2 Where the licensee receives a Valid Bad Debt Claim, it must, ~~during or as soon as practicable after the end of the Applicable Regulatory Year,~~ make payments to the Bad Debt Claimant, in instalments (12 monthly instalments unless otherwise agreed with the Bad Debt Claimant), **from the start of the Regulatory Year where the licensee has included the relevant Eligible Bad Debt Costs in its Allowed Distribution Network Revenue,** until such a time as the total Specified Bad Debt Amount has been paid in full.

I hope these comments are helpful. Please do not hesitate to contact me or Chris Barker (chris.barker@enwl.co.uk) if you would like to follow up on any particular aspect of our response.

Yours sincerely



Paul Auckland
Head of Economic Regulation