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Consultation on Managing network charge bad debt

Thank you for the opportunity to respond to Ofgem's open letter consulting on a proposal for managing network charge bad debt. This response is given on behalf of National Grid Gas Transmission (GT).

GT is participating in the Network Deferral Scheme (NCD) which seeks to assist those customers who have liquidity constraints due to COVID-19. The implementation of UNC726 provides relief to liquidity constraints to shippers by allowing them to defer payment of some gas transportation invoices related to National Grid NTS charges, issued in July, August, and September 2020. Repayment of any deferred invoices would be required before the end of March 2021.

We welcome the introduction of a term in the GT RIIO-2 licence for bad debt recovery enabling networks to recover potential bad debts arising from COVID-19 related deferred network charge payments and to introduce an enduring solution to bad debt recovery in general. We agree that network companies should follow best credit control practices to recover any debt before it is passed on to consumers via this term.

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. We will work with Ofgem on the detailed licence drafting and development of the Regulatory Instruction Guidelines (RIGs) through the RIIO-2 licence drafting workshops. The RIGs would include among others clarification on trigger points for forecasting bad debt as well as definitions of best practice.

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.

Please see below our responses to the specific questions asked in the open letter.

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?

As stated above, we welcome the introduction of a term for bad debt recovery into the licence per the recommended approach.

The timescale indicated in the letter shows the intent to recover NCD bad debt in 2021-22.

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.

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.

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. 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.

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?

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 Gas Transportation charges which comprises System Operator (SO) and Transmission Owner (TO) charges.

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.

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.

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). 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.

We welcome the opportunity to further discuss the points raised within this response. Should you require further information or clarity on any of the points outlined in this response, please contact me.

Yours sincerely,
[By email]

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