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Dear Mick,

Managing network charge bad debt

Thank you for the opportunity to respond to Ofgem's open letter on proposed licence changes to enable networks to recover bad debts arising as a result of the COVID-19 Network Charge Deferral Scheme (NCDS) and to introduce an enduring solution to bad debt recovery in general.

This response reflects the perspective of ScottishPower Group including ScottishPower Energy Retail Limited (SPERL). SP Energy Networks (SPEN) is also responding separately to this consultation via the Electricity Networks Association (ENA).

We have previously raised our concerns over the process followed by Ofgem for introducing the NCDS, in particular the lack of transparency and consultation, the absence of analysis or forecasting to support the necessity of introducing these new arrangements, and the absence of any assessment of their impact on competition in the domestic and non-domestic retail markets. We also highlighted the potential wider negative impact on the market and consumers.[1]

Setting those concerns aside, we welcome Ofgem's intention to honour the commitment made to network companies in connection with the NCDS that there would be an opportunity to recover resulting bad debt in the course of 2020/21. But in doing so it is important that Ofgem appropriately balances the positive cashflow impact on network companies against the adverse P&L impact on suppliers. 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:

- 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.

[1] Letter from Keith Anderson and 5 other CEOs to Jonathan Brearley, 11 June 2020

- 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.

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.**

To mitigate the impact on suppliers with fixed price retail contracts, 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, *where they have sought to do this*, they would be able to recover outstanding bad debt within the year 2021-22. 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.

If you have any comments or queries on any aspect of this response, please do not hesitate to contact me or Haren Thillainathan (hthillainathan@scottishpower.com, 0141 614 2007).

Yours sincerely,

Richard Sweet

Richard Sweet
Head of Regulatory Policy