

Mick Watson  
Head of Regulation Finance Reporting, Systems & Networks  
Ofgem  
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9 November 2020

Dear Mick,

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

ScottishPower welcomes the opportunity to respond to Ofgem's statutory consultation on finalised licence changes to enable networks to recover bad debts arising as a result of the COVID-19 Network Charge Deferral Scheme (NCDS). This response reflects the perspective of our retail business. SP Energy Networks (SPEN) has been engaging with Ofgem on this matter via the Electricity Networks Association (ENA).

Proposed modifications to the electricity distribution licences

We agree that Ofgem's Option 3 (introduce a new NCD-specific bad debt pass-through term) is a reasonable choice.

We have the following detailed comments on the proposed licence conditions:

1. The truing-up equation in paragraph 2B.45(b) for 2022/23 subtracts the quantity  $RCBD_{t-2}$ , 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?
2. There is an inconsistency between the formula in paragraph 2B.45, which refers to  $PCBD_{t-1}$  and  $PCBD_{t-2}$  (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  $t$ .
3. 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?

### Timeline for costs to be reflected in default tariff cap

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

“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.”

This does not appear to provide the level of reassurance that suppliers can reasonably expect, given the existence of the price cap. 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.

### Advance notice of bad debt costs

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:

- how the amount splits between type of network charge (electricity, gas, transmission, distribution);
- how the amount splits between companies which are still trading and those (if any) which have ceased trading.

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](mailto:hthillainathan@scottishpower.com), 0141 614 2007).

Yours sincerely,



**Richard Sweet**  
Head of Regulatory Policy