

Mick Watson
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

10 November 2020

Dear Mick,

Statutory consultation on proposed changes to the Special Conditions of the electricity distribution licence

We have welcomed the open engagement leading to the above statutory consultation on the proposed changes to our electricity distribution licences for Scottish Hydro Electric Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD) to give effect to the Network Charge Deferral (NCD) scheme.

We continue to welcome the provisions to allow network companies to recover outstanding bad debt within the year 2021-22 as a result of the scheme to minimise the disruption caused by the COVID-19 pandemic.

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:

1. Text in paragraph 2B.45 (b) should be amended as follows: “For Regulatory Years 2022/23”; and
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.

Importantly, this same drafting needs to be reflected in both our licensees (i.e. SHEPD and SEPD), noting that SHEPD's CRC 2B includes additional terms to accommodate provisions on Shetland.

Otherwise, we believe the drafting reflects the industry's feedback to date, noting that the necessary changes to the Regulatory Instructions and Guidance will follow.

Separately, we have flagged a small housekeeping change to CRC 2A (Restriction of Allowed Distribution Network Revenue) of our SHEPD licence, which it may be prudent to correct at the same time as introducing this change to CRC 2B. In CRC 2A, we believe the REV term (the combined value of all revenue adjustments) incorrectly references the SEVEC term (the adjustment made for Shetland Extension Variable Energy Costs) when this is already captured through the PT (or Pass-Through) term. We believe SEVEC should be removed from the calculation of the REV term.

Should you wish to discuss any of the above, please do not hesitate to contact me.

Yours sincerely,

Gillian Hilton
Distribution networks, regulation

