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Submitted via email: [regfinance@ofgem.gov.uk](mailto:regfinance@ofgem.gov.uk)

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Dear Mick

**RE: Managing Network Charge Bad Debt**

I am writing in response to Ofgem's proposal 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.

As a general point, we are very disappointed in the process taken by Ofgem in relation to the Network Charge Deferral scheme in general, which we have raised with Ofgem previously. Due to the approach taken by Ofgem, no consultation was undertaken to understand the wider potential impacts on the supply sector of the agreement.

The current consultation would appear to compound these concerns. Ofgem's consultation also does not consider the potential impacts on suppliers. We are, however, aware that Ofgem is concerned regarding financial stability of suppliers during this time, and, therefore, are alarmed by this lack of consideration on an issue which will potentially further challenge suppliers' finances.

For electricity charging, we are concerned that suppliers will be materially impacted by the proposals. We understand that the proposals will increase network charges from April 2021 at significantly shorter notice than normal. Indeed, Ofgem notes in footnote 11 that Electricity Distribution licensees will have to ask the Authority for a consent for them to only give 40 days' notice of tariff changes (which would allow tariff changes to be notified up to 20 February 2021). This will result in a financial impact to suppliers with customers on fixed term tariffs as they are unable to pass those charges onto customers. Short-notice changes will also not be able to be factored into the Default Tariff Cap if made after the date that the cap level is set. This is not acceptable as it would systematically prevent efficient suppliers from recovering their costs. We, therefore, ask that Ofgem:

- Seeks to mitigate the increase as much as possible to limit this financial impact, ideally sharing the pain between suppliers and networks,
- Requires Electricity Distribution licensees to give sufficient notice so that changes can be reflected in tariff cap levels announced on 7 February 2021, and
- Considers spreading any mutualisation costs across the entire price control period (not just 2021-22).

Such quick clawback of network charge bad debt could also see network companies over-recovering if they subsequently receive some payback from the failed supplier's administrator. While we assume that network companies will adjust in subsequent years for this, we would welcome clarity as to what arrangements will be in place if network companies subsequently receive some of the debt that they had declared as bad debt.

For gas charging, we think the proposals may be less impactful. This is as we understand that Ofgem is proposing that the NCD bad debt would be recovered through the new mechanism under RII0-GD2 and therefore it would be subject to the normal notice period for these network charges. However, if we have misunderstood, and a shortened notice period would apply as is being proposed for electricity, then we would be very concerned regarding the impact to suppliers due to the level of charges that would be unrecoverable from fixed term customers, and not accounted for under the default tariff cap.

As a point of principle, we believe Ofgem should be seeking to protect suppliers from the risk of mutualisation as far as possible, and ensure that this is not a mechanism to precipitate nor facilitate bad debt. In this respect, we believe these licence modifications should also include an incentive on network companies to minimise bad debt, especially for Gas Transporters as they are directly involved in deciding who is eligible for payment deferrals in Gas. The network costs deferral might not be much in total, but when coupled with RO, CFD and other obligations then it could amount to enough to push an already struggling supplier into administration, and thus will risk creating a vicious cycle of failure where the costs of meeting a failed supplier's debt causes more failures, and so on

I hope you find our comments useful, and if you would like to discuss further please do not hesitate to contact me on 0207 747 2931 or at [steve.kirkwood@energy-uk.org.uk](mailto:steve.kirkwood@energy-uk.org.uk).

Yours sincerely,

**Steve Kirkwood**  
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