

Unite the Union response to the Office of Gas and Electricity Markets Statutory Consultation on Proposed Changes to the Special Conditions (also known as the Charge Restriction Conditions 'CRC') of the Electricity Distribution Licence



1. Introduction

- 1.1. This submission is made by Unite, the UK's largest trade union with over one million members across all sectors of the economy, including manufacturing, financial services, transport, food and agriculture, construction, energy and utilities, information technology, service industries, health, local Government and the not for profit sector. Unite also organises in the community, enabling those who are not in employment to be part of our union.
- 1.2. Of particular relevance to this submission, Unite represents over 35,000 energy and utility workers.

2. Background summary

- 2.1. As stated in the consultation, the electricity distribution network operators¹ (DNOs) in Great Britain are the holders of an electricity distribution licence (the Licence) granted under section 6(1)(c) of the Electricity Distribution Act 1989. The Network Charge Deferral (NCD) scheme², run by the Energy Networks Association (ENA), has helped to minimise disruption to customers and other market participants by assisting suppliers and shippers who face cash-flow issues due to the unprecedented public health crisis triggered by Covid-19.
- 2.2. In an open letter sent on 2nd June 2020, Ofgem stated that where any supplier or shipper takes advantage of such schemes, Ofgem would expect network companies to pursue any debt through the liquidation process. However, where network companies have sought to do this, Ofgem also said they would be able to recover outstanding bad debt within the year 2021-22 and that Ofgem would propose licence modifications to give effect to this in due course.
- 2.3. In a subsequent open letter published on 7 August 2020³, Ofgem set out options for enabling electricity distribution network operators to recover any potential bad debts arising as a direct result of that scheme in the year 2021-22. In the letter, Ofgem outlined three options for electricity distribution, briefly to;
 - Introduce a miscellaneous pass-through term.

¹ The GB electricity distribution network - <https://www.ofgem.gov.uk/electricity/distribution-networks/gbelectricity-distribution-network>

² Open letter on relaxing network charge payment terms, published 2 June 2020 - https://www.ofgem.gov.uk/system/files/docs/2020/06/open_letter_on_relaxing_network_charge_payment_terms_1.pdf

³ Managing Network Charge Bad Debt - <https://www.ofgem.gov.uk/publications-and-updates/managing-networkcharge-bad-debt-0>

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- Modify the existing Eligible Bad Debt (EBDt) in the Special Conditions of the electricity distribution license.
- Introduce a new NCD specific bad debt pass-through term.

Ofgem believed the third option was the best approach, and went on to describe its reasoning.

3. In Response

- 3.1. Unite recognises that the Covid-19 pandemic has caused a considerable increase in bad debt caused by the numbers of workers that have either become unemployed or have been unable to generate income as a result of the Government's failure to provide sufficient financial support to people at this time of a major epidemic. Unite has been campaigning to retain jobs and convince the Government that they need to deliver appropriate assistance beyond their Job Retention Scheme or Job Support Scheme (JSS) whichever is in force at the time, to a wider range of industries and individuals than is currently the case. It is due to this lack of Government support that customers are unable to pay their bills; this is not just in energy but other vital areas such as rent/mortgages, utility bills, the ability to buy food, etc.
- 3.2. Given the present situation that has been largely caused by the inability of the Conservative Government to act and protect its citizens at this time from the impacts of individuals' health and wealth, Unite feels that the cost of bad debt should be met by the Treasury and not the energy suppliers, or those who have been left unable to pay due to the impact of the Covid-19 pandemic. Any record of Covid related bad debt should not be recorded against the individual's financial record, nor should this situation prevent the individuals concerned having the ability to switch providers in order to obtain a better deal.
- 3.3. Unite believes that during this time, the total amount of Covid related bad debt should therefore, be deducted from the licence fee paid by the energy companies to Ofgem as a way of supporting the energy industry and to protect companies against incurring subsequent costs.
- 3.4. Ultimately, Boris Johnson's Government need to take responsibility for this failure to provide adequate support to people. There were adequate warnings that this pandemic would require an increased level of security to detect carriers of the Covid-19 pandemic and a swifter introduction of test and trace to isolate those infected.
- 3.5. Unite feels that Government support for workers and businesses is inadequate as it fails to provide the necessary financial support and only contributes to increases in debts, leaving customers with insufficient funds to pay their bills. Such costs are now borne by the suppliers of the services that support those customers which is totally unreasonable. As has been shown by the recent decision to keep the Furlough Scheme running and extend mortgage holidays, etc., at the very last minute, these changes do not allow suppliers or their customers to make any financial plans. Due to these last minute changes on 31st October, thousands of people have lost their jobs needlessly and many more companies have had to pay the price for redundancies.

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- 3.6. The anticipated growth in unemployment statistics, the loss of income due to the lack of Government support and inevitably company failures, has led to a significant increase in bad debt caused by circumstances beyond the control of the consumer be that individual or industrial. Unite believes that there is a consequential need to ensure that the additional burdens suffered by the energy suppliers do not lead to further job losses in the energy sector.
- 3.7. For these reasons outlined, Unite would support any reasonable proposal that sees the energy suppliers and distributors, and in turn the generators, protected from incurring huge losses and given time to pay.
- 3.8. Unite does not believe that it is reasonable for proposals to increase network charges from April 2021 at significantly shorter notice than is normally the case, as this will only lead to the costs being absorbed by the suppliers as there is insufficient time to arrange for these to be passed on to the customer. Whilst this may reduce the volume of bad debts, it also impacts significantly on the energy companies' bottom line and tackle the issue of fuel poverty directly. Unite would recommend therefore, that company obligations to settle the cost of these bad debts should be spread over the next control period. For gas distribution, this would mean 2021 to 2026. For electricity distribution, this would mean 2023 to 2028.

4. Conclusion

- 4.1. Unite feels that the current Government's mismanagement of the current crisis has created far more bad debt than would normally occur in a year. The surge in unemployment and redundancies will inevitably create more bad debt.
- 4.2. With Brexit on the horizon, the uncertainty that this has also created has the potential to add to the problem. This too could lead to further job losses and yet more bad debt.
- 4.3. Unite believes it is therefore, reasonable to give the energy suppliers more time to pay their debts off and for the April 2021 increases to be delayed until April 2022 at the earliest. Hopefully by then the country will be back on its feet.

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