

4. Ofgem's conclusions on pass through criteria

Amount of recovery

The following criteria will apply where NWOs seek pass through of bad debt:

- 4.1. Companies must have implemented credit control, billing and collection procedures in line with Schedule 1 ('Cover') of the Distribution Connection and Use of System Agreement (DCUSA) in order to be eligible for pass through;
- 4.2. In the event of a default, companies claiming pass through need to provide self-certification of compliance with Schedule 1 of the DCUSA and the amount of loss incurred, which may be subject to audit by Ofgem;
- 4.3. Companies demonstrating compliance with or able to satisfactorily to explain departure from Schedule 1 of the DCUSA will be able to recover all bad debt losses arising in respect of charges not due for payment at the date of the relevant counterparty's insolvency, net of any dividends or recoveries;
- 4.4. Such companies will also be able to recover a proportion of bad debt losses arising in respect of charges overdue for payment at the date of the relevant counterparty's insolvency, net of any dividends or recoveries (which would be offset proportionately against all outstanding balances), depending on the age of the outstanding receivable. The amount recoverable would be equal to the value of outstanding balances subject to bona fide dispute (plus or minus the value of any reconciliation adjustments subsequently made) together with a proportion of the value of all undisputed balances (up to a maximum of 100 per cent) that varies inversely with the age of the balance, as set out below. The overall recoverable amount would be reduced for any other recoveries.

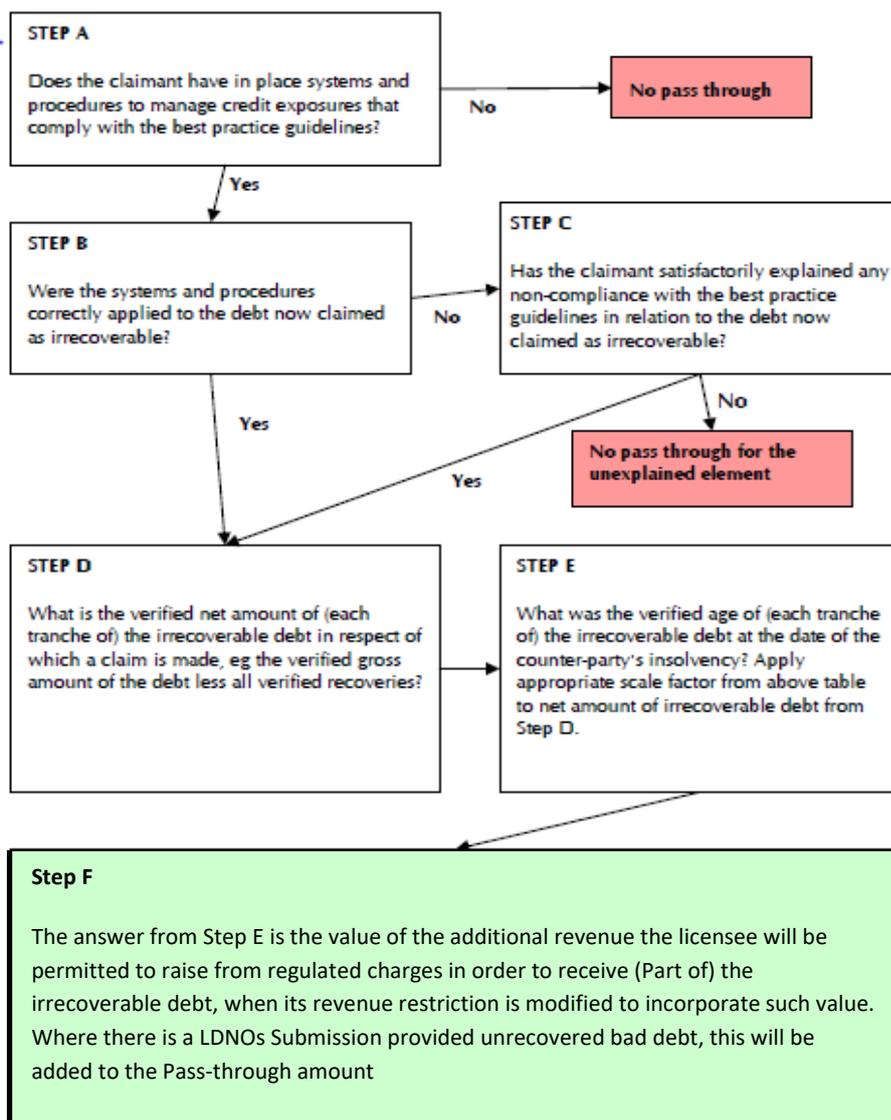
No. of business days past due	Percentage of face value recoverable
0 – 30	100
31 – 35	90
36 – 40	80
41 – 45	70
46 – 50	60
51 – 55	50
56 – 60	35
61 – 65	20
>65	5

4.5. Under Schedule 19 ('Portfolio Billing') of the DCUSA, a company which is an electricity Distribution Network Operator (DNO) is required to take on an amount of bad debt owed to Licensed Distribution Network Operators (LDNOs) operating within its area and to whose networks customers of the relevant counterparty were connected. The amount of bad debt represents the proportion of unpaid Use of System invoices levied by the LDNO on the counterparty which relates to the upstream DNO assets, and where the LDNO has been unable to recover bad debts through any other approved means.

4.6. Such bad debt should only be taken on by the company where the LDNO has self-certified that it has implemented credit control, billing and collection procedures in line with Schedule 1 of the DCUSA, and only up to the level which the company would be allowed to pass through if the customers had been connected to its network (i.e. reduced in line with clause 4.4 of this guidance).

4.7. DNOs will be entitled to recover all bad debt losses arising in respect of bad debt taken on in line with clauses 4.5 and 4.6.

4.8. In summary, the practical application of the above process would be:



Timing of recovery

- 4.9. Following the application of the above process, Ofgem will advise affected NWOs of the percentage of recovery.
- 4.10. All sums to be recovered will be 'logged up' and dealt with at the subsequent price control review. In addition, the adjustment will have an allowance for the cost of funding the loss pending recovery. However, where a delay in recovery would have a material adverse effect on the financial position of an NWO, Ofgem may consider earlier licence modifications.