

Energy UK response to consultation on DNOs request for directions to temporarily disapply the current DUoS charges notification periods

09 August 2021

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering nearly 80% of the UK's power generation and over 90% of the energy supply for the 28 million UK homes as well as businesses.

The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

Energy UK welcomes the opportunity to respond to the *Consultation on DNOs' request for directions to disapply the notice periods set out in the electricity distribution licence SLC 14.11 and in clause 19.1A of DCUSA Section 2A in regulatory years 2023/24 and 2024/25*, which will refer to as '15 months' notice period' in our response.

The 15 months' notice period has now been embedded into the contractual arrangements and processes for suppliers since 2015. It provides certainty amongst customers and reduces risk premia that would be required to be applied to customer contracts. When the directions were originally agreed, one of the primary reasons why 15 months' notice period was requested was the higher forecasting risk posed by instances such as new price controls which suppliers were not best placed to manage.

Allowing for disapplication of those notice periods simply transfers this risk from DNOs to back to suppliers, or those customers who choose contractual terms that allows a pass through of DUoS charges. We firmly believe that the risk should reside with the DNOs and a suitable mechanism is introduced so that DNOs are not adversely impacted financially.

We would also like to see a more enduring solution applied for future price control cross overs which perhaps could be taken forward through a DCUSA modification.

There are three options being consulted on and we wish to respond to each one in turn:

Directions

We do not support the options presented in the consultation.

Any direction that considers a reduction to the existing 15 months' notice period to either 3 months or 40 days is not accepted. As we explain in our response to the Letter of comfort option, we believe this strikes a better overall outcome.

Further, generators will be seeing a level of uncertainty in network charging until the Ofgem charging reviews have been completed. Therefore Energy UK cannot support an option that reduces the 15 months' notice period as this detracts from the certainty it brings.

There is a knock on impact to IDNO charges that is not mentioned in the consultation. IDNOs can only publish their charges once the "host" DNO has published theirs. Reducing the timescale to 40 days leaves very little time for these to be prepared and published. Further, as the majority of IDNOs operate in all GSP Groups, suppliers take considerably longer to process their charging statements take longer compared with the DNO statements.

Letter of comfort

We support this option.

This option allows the 15 months' notice period to be retained with some assurance to DNOs that they would not be financially penalised, except to address obvious cases of underperformance, should the revenue they recover breach the tolerance levels due to the difference between the draft and final RIIO-ED2 revenue determinations. To mitigate the potential for poor forecast performance and for customers paying more in 2023/24 than they should, Ofgem should make clear that DNOs must use Ofgem's working assumptions for the key financial drivers for RIIO-ED2 for the purposes of charge setting.

We note that there is a suggestion that DNOs may face short term cash flow volatility which the revenue variance measures outlined in the Letter of comfort may not provide. If quantitative evidence can be provided to Ofgem that satisfies them that this risk would cause such issues, then we suggest a suitable agreement to manage that risk is agreed between Ofgem and the DNOs.

Customers demand, where possible, budget certainty. This enables them to plan effectively. If they are aware of charges in advance, they can budget effectively. Therefore, we believe advance notice of tariffs outweighs significant over/under recovery.

Ofgem suggests that this Letter of comfort applies to the first year of RIIO-ED2. We do not hold any strong views on if it should also apply in the second year unless Ofgem finds that the variation between draft and final revenue determinations exceeds what they believe is an acceptable tolerance level.

This option also has benefits in reducing the risk of the implementation timings of the tariff price cap for 1 April period. A letter of comfort would mitigate a key risk that suppliers would face.

DCUSA code modification

We do not support this option.

We believe that this consultation is adequate in providing Ofgem with our views on what direction should be taken.

We do however believe it may be prudent to establish a more enduring solution so that we do not face the same issue at the cross over of the next price control.

Should you have any questions regarding our response, please do get in touch.

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