

Dear Rachel,

Thank you for the opportunity to respond to your deliberations on the Price Control.

I have two observations from the perspective of a small supplier and customer.

Firstly, as a result of the environmental and price pressure we could see demand in the NHH and HH SME sector reducing on an MPAN specific level at 5% per annum. It has recently been confirmed that this is now happening at a system level at the rate of 4% per annum. Much of this we believe is the impact of energy efficiency measures and is therefore not likely to reappear as the economy recovers. Taking a headliner figure 4% p.a. demand reduction over a 5 year price control period is a 20% reduction in volume, coupled with a suggested 25% increase in charges would result in a 56% increase in unit specific charges. Clearly a very large increase. This begs the question as to what is really going on and the extent to which all the investment is required in a declining market.

The second point is about price effects on different sectors of the market. The SME sector tends to contract on the basis of fixed price fixed term contracts of typically 3-4 years duration. This is especially true in the small supplier sector where agents and brokers are involved. Uncertainty in future DUoS charges is a major unhedgeable risk. The price volatility appears in two ways, firstly through price control Po and Px and secondly through methodology changes. Both have potential to provide significant swings in the distribution costs. This is further made worse on the methodology changes as they can often effect different sectors of the market differently. Larger players who have diverse portfolios of customers in a DNO are less exposed to these changes in charges. Price certainty and stability is important. I continue to believe that fixing the maximum rate of change of any specific charge element in a Duos charging methodology is critically important to providing an effective competitive framework for the sme sector of the market. The maximum rate of change should be set at around 5% per annum. Any under recovery will have to be carried forwards into a future year with an appropriate cost of capital.

If it is not possible to achieve this then providing clear unambiguous information to the end market on the likely changes ahead is essential. A second feature could be changes every few months rather than allowing changes to build to be sizable step changes.

I trust this is of interest.

Regards

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