

Patrick Cassels
Head of Electricity Network Access
Ofgem
10 South Colonnade
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London
E14 4PU

9 August 2021

Dear Patrick

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

Thank you for the opportunity to comment on this consultation. This response reflects the views of ScottishPower Energy Retail, ScottishPower's retail business.

We recognise the issue that Ofgem is aiming to address within this consultation, and think it is important for Ofgem to ensure that any action taken in this regard, finds the right balance in placing risk within the energy supply chain i.e. ensuring it is placed with the most appropriate entity to be able to manage that risk. This balance is reflected in our answers to the consultation questions which are set out in Annex 1 to this letter.

We would highlight the following key points:

- The current process of providing 15 months' notice for DUoS charges allows suppliers to price accurately and removes the need for a risk premium for this element to be included within their charges with this premium being passed to customers. This particularly impacts larger non-domestic customers who prefer contracts to be agreed for several years at a time. As such, 15 months allows for the charges to be published in an open and transparent manner, treating all customer types fairly. Reducing that period to 40 days will result in uncertainty and risk premiums that have not been required since the notice period was introduced in 2015.
- Therefore, based on the above, and Ofgem's evidence within the consultation, we believe that the risks posed to customers and suppliers of issuing directions to disapply DCUSA and licence conditions outweighs the benefits highlighted by DNOs. Issuing a letter of comfort to DNOs may be an appropriate approach, but we would also note that individual DNOs can apply for a derogation if they can provide sufficient evidence of material impact, which may remove any need for a letter of comfort.

- We would also highlight that there is a knock on impact on IDNO publication of charges that has not been addressed in the consultation. IDNOs can only publish their charges after the “host DNO” with IDNO charges generally being published a month after the “host DNO”. As IDNOs operate in multiple areas their charges can be very complex for suppliers to process within their systems as such we strongly recommend the IDNO publication timescale is factored into decision.

Should you wish to discuss any of these points further then please do not hesitate to contact me or Lorna Mallon (lorna.mallon@scottishpower.com, 0141 614 1163).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Rhona Peat'.

Rhona Peat
Head of Retail Regulation

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 – SCOTTISHPOWER RESPONSE

1. Do you agree with our initial views on whether to issue directions that the relevant DCUSA and licence conditions do not apply? Please provide evidence to support your views, including on whether any or some directions should be issued and the benefits and risks with each option. If we do issue a direction (or directions):

i. Should these apply for 2023/24 and 2024/25, or just 2023/24?

ii. Should it be a direction only disapplying DCUSA Section 2A clause 19.1B or also electricity distribution licence SLC 14.11?

iii. If both, what should the notice period be and why?

We agree with Ofgem's initial views of the benefits and risks of issuing directions that the relevant DCUSA and licence conditions do not apply. From our consideration, we are not convinced that the benefits to DNOs outweighs the risks placed on suppliers and ultimately customers.

Further there is no evidence to date to suggest that DNOs as a whole face risks at a level that would require such an intervention. However, we recognise the potential for individual DNOs to need it over time. In this case, rather than a blanket request, if an individual DNO were to provide sufficient evidence DCUSA allows for any DNO that needs to revise their charges to apply for an individual derogation. This option will remain in place and therefore if Ofgem refuses this blanket request, it does not mean individual DNOs have no options at all.

2. Can you provide any specific evidence about the impact of varying notice periods on contractual arrangements and budgeting?

15 months' notice period allows suppliers and customers with pass through contracts adequate notice of volatility. It also allows suppliers to finalise charges to base all other charges on.

We recognise this can lead to large swings but as it gives 15 months' notice this is time for customers and suppliers to budget accordingly.

We also note that TCR has resulted in changes to customers' DUoS. Although charges were published with 15 months' notice, the bands are still moving and therefore suppliers and customers are already experiencing periods of uncertainty. This proposal would result in extending that period from 1 to 3 years with no benefit.

3. Do you agree with our initial views on the potential for a letter of comfort being sufficient to mitigate the main risk for DNOs? If no, please provide evidence of what the remaining risks are with this option?

We generally agree with Ofgem's initial views on the potential for a letter of comfort being sufficient for DNOs to mitigate risks. However, as stated in response to Question 1, as all DNOs still have the option of an individual derogation if they can provide sufficient evidence of risk, we are not convinced that a letter of comfort is needed.

4. Do you think the benefit of advanced notice of charges outweighs the risk of significant under/over-recovery over multiple years? Please provide evidence to support your preference.

Yes, we believe the direct benefit to customers outweighs the risk of significant over / under recovery. As we have also noted in response to other questions, where individual DNOs can evidence material risk DCUSA allows individual DNOs to apply for a derogation and revise their charges if required rather than needing a blanket decision by Ofgem at this point.

One of the main options available to domestic customers is to choose fixed products. Suppliers require as much certainty as possible to be able to set these products, and the current 15 months' notice period provides the only, long term, fixed value.

A similar issue applies for non-domestic customers. Many, larger non-domestic customers prefer "pass through" contracts which allow them to be charged the actual DUoS value, without the need for a bundled charge. These customers forecast the DUoS values themselves, with 15 months' notice allowing them suitable time to either change their usage pattern or ensure suitable budget is in place.

5. Do you agree with our views on the option to use the code modification process to address the timing issues between price controls? If not, can you provide any evidence regarding the benefit of applying a code change?

We do not believe a change to the timing is required as DNOs should be able to factor the timescale into their plans. However, if there is a potential requirement we agree with Ofgem's views to use the code modification process as this is open to all, allowing an open and transparent review to take place.

6. Do you have any further evidence or information that you think is relevant and can help inform our decision?

As stated in the cover letter, we strongly recommend that Ofgem considers the knock on impact on IDNO charges. As IDNO charges follow the DNO the impact on their timeline has to be considered. Further, as the majority of IDNOs operate in all 14 GSP Groups, their charging statements can be very time consuming for suppliers to process which would make the current DNO timeline totally unworkable for IDNO charges.

ScottishPower Energy Retail Ltd
August 2021