

ENA RESPONSE TO OFGEM 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

Introduction

Energy Networks Association (ENA) represents the companies that operate and maintain the gas and electricity grid network in the UK and Ireland. Serving over 30 million customers, they are responsible for the transmission and distribution network of 'wires and pipes' that keep our lights on, our homes warm and our businesses running.

We welcome this opportunity to respond to Ofgem's consultation on the DNOs' request for directions to disapply the notice periods set out in the electricity distribution licence and DCUSA for regulatory years 2023/24 and 2024/25.

This response is written on behalf of the Distribution Services Providers (as defined in the electricity distribution licence) and listed at the end of this letter and known as Distribution Network Operators ("DNOs"). This response sets out the collective views of the DNOs, each of whom will be providing their own company specific responses on the detailed questions contained in the consultation.

Background

The background to this response and further detail regarding the DNOs' request for the Gas and Electricity Markets Authority to give formal directions in respect of the notice periods for changes to Distribution Use of System (DUoS) charges for the first two years of RIIO-ED2 is set out in our letter, and accompanying Appendix¹, dated 5th May 2021.

The Need for Change

Without change, there is significant risk of price volatility arising from the need for DNOs to estimate allowed revenues for RIIO-ED2 in order to provide the requisite notice in advance of applying changes to DUoS charges. This is relevant for regulatory years:

- 2023/24 (where notice would be required around six months in advance of Ofgem publishing its RIIO-ED2 draft determinations); and
- 2024/25 (where notice would be required in approximately the same timescales in which Ofgem publishes its RIIO-ED2 final determinations).

¹ https://www.ofgem.gov.uk/sites/default/files/2021-07/DUoS%202023-24%20Price%20Setting%20and%20RIIO-ED2_v101625820811924_0.pdf

- The potential impact of this price volatility is most likely to be felt by electricity consumers. The likelihood of price volatility is increased as a result of the transition to the new price control period, step changes in investment and implementation of Access SCR reforms. Volatility may extend for up to four years after tariffs are set due to the two-year lag.

It is our belief that consumer interests will be best protected by introducing an appropriate reduced notification period (described in more detail in our 5th May letter) for DNOs to publish changes to DUoS tariffs for regulatory years 2023/24 and 2024/25. Further, we believe the direction should be applied to both DCUSA and licence obligations to be effective.

Why we believe a Direction is Necessary

Ofgem's consultation outlines 3 options via which the issues raised in our letter of 5th May 2021 might be addressed:

1. Directions
2. Letter of comfort
3. DCUSA Code modification

For the reasons outlined in our letter of 5th May 2021, we consider Directions served upon each DNO to be the appropriate mechanism for initiating the change to notice periods. Indeed, we believe this to be the only viable option, discounting the others for the following reasons:

- The letter of comfort – the current mechanisms adequately deal with this matter and we do not believe a letter of comfort provides any additional support to consumers' needs.
- DCUSA Code modification – we agree with the rationale provided by Ofgem, noting in particular the constraints surrounding the timetable for implementation.

Conclusions

We would like to thank Ofgem for publishing its consultation in response to our request for directions to disapply the notice periods set out in the electricity distribution licence (SLC 14.11) and in the DCUSA (Section 2A, Clause 19.1A) in respect of regulatory years 2023/24 and 2024/25.

It is our belief that these directions are required to minimise the significant likelihood of price volatility at the start of RIIO-ED2 and the impact on electricity consumers. We do not believe either of the alternative options considered in the consultation will achieve the desired objectives.

Finally, we consider the continuing requirement for DNOs to provide 15 months' notice for changes to DUoS tariffs beyond 2024/25 should be one of a number of factors considered in Ofgem's review of DUoS reform and implementation of uncertainty mechanisms in RIIO-ED2.

If you have any questions on the points raised in this response, please contact Paul McGimpsey, Director Markets and Regulation: paul.mcgimpsey@energynetworks.org

Energy Networks Association

09 August 2021

On behalf of:

1. Electricity North West Limited
2. Northern Powergrid (Northeast) plc
3. Northern Powergrid (Yorkshire) plc
4. SP Distribution plc
5. SP Manweb plc
6. Scottish Hyrdro Electric Power Distribution plc
7. Southern Electric Power Distribution plc
8. Eastern Power Networks plc
9. London Power Networks plc
10. South Eastern Power Networks plc
11. Western Power Distribution (East Midlands) plc
12. Western Power Distribution (West Midlands) plc
13. Western Power Distribution (South West) plc
14. Western Power Distribution (South Wales) plc