



Notice Period Options For Network Charges For The Start Of ED3

Introduction

Brook Green Supply are the largest independent non-domestic gas and electricity supplier in the UK. Formed in 2016, we offer a range of supply products and flexible energy solutions to large Industrial and Commercial (I&C) consumers. With increased market volatility and intermittency across the grid, BGS provides a full range of flexibility and optimisation solutions, helping to accelerate the transition to a decarbonised energy system. We have grown both in the range of services provided as well as market share, now ranking in the top 10 non-domestic suppliers by volume. Customers include FTSE 100 companies, public sector organisations as well as core components of the UK's manufacturing base.

Given the four solution options, we are supportive of options 1 and 2 which retain the 15-month notice period and reduce it to 13-14 months, respectively. Longer notice periods provide greater certainty to suppliers whereas shorter notice periods create greater uncertainty which leads to high-risk premia being passed through to customers. At a time when UK industrial electricity prices are the highest in Europe, we'd strongly encourage Ofgem to avoid making a decision which is going to push further cost onto UK businesses, as well as households. This is particularly relevant as the government are making policy decisions to try and reduce electricity prices via the creation of the British Industrial Competitiveness Scheme for some business customers, as well as changes on the domestic side through the reduction of VAT and taking 75% of Renewables Obligation into central taxation. If Ofgem opts to approve this change, then it will reduce the impact of those of changes. We argued



the same point in relation to CMP474 & CMP475, which we note you have now delayed a decision on.

In our response document, we have provided additional information explaining why we strongly oppose Options 3 and 4 and favour longer notice periods.

Consultation Questions

1. **Are there any other notice period options that may be appropriate for Year 1 of ED3?**

We fully support option 1 to retain the 15-month notice period, with our second preference being option 2 – 13 to 14 months. However, we do not support options 3 and 4, 5 moving to 8 months and 2 months, respectively. Longer notice periods ensure greater price certainty for suppliers whereas shorter notice periods reduce certainty for suppliers resulting in higher risk premia being passed through to customers.

It is also noted in the consultation that suppliers cannot hedge DUoS risk in the same way they can hedge wholesale costs. A notice period of less than 13 – 14 months would significantly increase suppliers' pricing and contractual risk. Suppliers are required to price and commit to customer contracts well in advance of the period to which DUoS charges apply, particularly in the non-domestic market where fixed-price contracts may already be in place for the relevant charging year. Unlike DNOs, suppliers do not have a regulatory mechanism that allows unexpected DUoS costs to be recovered through future tariff adjustments once those contracts have been



agreed. A shorter notice period would therefore transfer forecasting risk from DNOs to suppliers and ultimately to consumers through higher risk premia.

In contrast, DNOs are able to manage differences between forecast and actual allowed revenues through the established over- and under-recovery mechanisms within the price control framework, with adjustments made in subsequent charging years. We therefore consider that DNOs are better placed than suppliers to manage this uncertainty.

Hence, we support either retaining the current 15-month notice period or, if Ofgem considers a temporary derogation necessary for the transition into ED3, limiting any reduction to no less than 13 - 14 months. This would preserve sufficient lead time for suppliers to price, contract, budget and communicate with customers, while still allowing DNOs a modest improvement in the accuracy of tariff setting.

An additional option we can think of is blending of two notice period options. DNOs can publish indicative/draft charges 13-14 months before tariff year and the final tariffs 5-8 months before tariff year. A draft publication by DNOs gives Suppliers a Benchmark to forecasts costs off of, meaning we can begin to align forecasting models with the new price control period, set up new products to support the needs/preferences of customers uncertain of whether their bills might go up again, amongst other decisions that could be made reflective of ED3. While there will still be the potential for some volatility, the benchmark should provide stable pricing and limit the exposure of sudden/unforeseen cost that ultimately will be passed down to consumers



2. Under Option 1, is a letter of comfort required to address the risk of over-and under-recovery – as we did for ED2?

Not Applicable

3. How long do DNOs need to prepare and publish charges after receiving the final inputs relevant for a given option (for example, Final Determinations for Option 4)? Does it vary for different options?

Not Applicable

4. How long do LDNOs need to prepare and publish charges after DNO charge publication where a notice period derogation is in place?

Not Applicable

5. Do you agree with our initial assessment of the options for Year 1? Please provide evidence to support your views, including benefits and risks with each option. In particular, please provide evidence of the degree to which risk premia could change under Options 2, 3 and 4 as compared with the baseline of Option 1.

We partially agree with Ofgem's assessment. From a supplier perspective, Options 1 and 2 are workable, whereas Options 3 and 4 are not feasible because they transfer a significant amount of forecasting and pricing risk from DNOs to suppliers. DNOs can recover differences between forecast and actual revenues through established regulatory adjustment mechanisms. Suppliers, however, enter into fixed-price contracts well in advance of delivery and generally cannot recover unexpected



DUoS costs once those contracts have been agreed. A material reduction in the notice period would therefore increase retail pricing risk and ultimately lead to higher risk premia for customers.

Option 1 (15 months) remains our preferred option as it provides the greatest certainty for pricing, contracting and customer budgeting. Option 2 (13–14 months) is a workable alternative, as the reduction is relatively modest and can generally be accommodated within existing supplier processes. By contrast, Options 3 (5–8 months) and 4 (2 months) would require suppliers to price contracts while DUoS costs remained materially uncertain. This would increase risk premia for customers, reduce the availability of longer-term fixed-price products, and introduce unnecessary contractual and operational complexity. We would expect Option 2 to have only a modest impact on risk premia relative to Option 1, while Options 3 and 4 would result in a materially higher increase in pricing uncertainty and risk allowances. Accordingly, we support Option 1 as the preferred outcome, with Option 2 as the only practical alternative for Year 1 of ED3.

We do not agree with Ofgem's assessment about option 3 being a good balance between very long notice periods and very short notice periods. We also don't agree prioritising the cost reflectivity benefit of short notice periods as it is at the cost of placing suppliers on the edge. Even though it is not ideal for DNOs to manage the risks of higher YoY variability in tariff setting when final ED3 determinations are not released by Ofgem, we agree with the assessment itself which states that DNOs are better placed to manage this risk than suppliers.



6. Do you agree with our initial assessment of the options for Year 2? Please provide evidence to support your views, including benefits and risks with each option.

We broadly agree that 14–15 months is an appropriate range for Year 2 of ED3. A notice period of 14 months remains workable from a supplier perspective and still provides sufficient lead time for pricing, contracting, budgeting, and customer communications. However, we do not support any reduction below 14 months. Suppliers commit to fixed-price contracts well in advance of delivery and generally cannot recover unexpected DUoS costs once contracts have been agreed. A shorter notice period would transfer forecasting risk from DNOs to suppliers and would ultimately result in higher risk premia being built into retail tariffs, at a time when UK electricity consumers are already subject to high electricity prices. We therefore support retaining the 15-month notice period, with 14 months as the minimum workable alternative.

7. What was the impact of the year-on-year variability in charges at the start of ED2 on contractual arrangements, budgeting and any other relevant elements of your business/experience? Please include reference to the impact this had on your customers. Did the longer notice period compensate for this variability?

The YoY variability in charges at the start of ED2 created pricing and budgeting challenges, particularly for fixed-price and non-domestic contracts. However, the 15-month notice period was valuable in helping us manage that uncertainty. It provided



sufficient time to incorporate known DUoS charges into pricing models, procurement decisions, and customer budgets before contracts were agreed. In our experience, the longer notice period largely compensated for the variability by allowing suppliers to plan ahead and avoid embedding excessive contingency into customer pricing. Had the notice period been materially shorter, we would likely have needed to increase risk allowances, shorten quote validity periods, or include broader pass-through provisions in customer contracts. For that reason, our experience of ED2 supports retaining a 14–15-month notice period, and we do not believe anything materially shorter would be workable from a supplier perspective.