

ICoSS response to Notice period options for network charges for the start of ED3

The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market¹.

Please note our responses concern the non-domestic retail sector only. Also please note that this response represents the view of the majority of our members. Members will also submit their own responses directly.

Q1. Are there any other notice periods options that may be appropriate for Year 1 of ED3?

We strongly oppose any reduction to the current notice period. We would be supportive of an increase in the existing notice period as this would give non-domestic customers more time to plan for any changes in transportation costs.

Q2. Under Option 1, is a letter of comfort required to address the risk of over-and under-recovery – as we did for ED2?

We have serious concerns over the proposal to reduce notice periods (see Q5 & Q6). We believe that a less damaging solution would be for the DNOs to be allowed to set rates without the fear of being penalised for those rates missing the existing narrow allowed revenue tolerances. This solution will avoid the damaging effects of reducing notice periods avoiding transferring risk to suppliers and so increase customer costs. We are therefore supportive of having a letter of comfort sent to the DNOs to this effect.

Q3. 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?

As we do not represent DNOs we have not answered this question.

Q4. How long do LDNOs need to prepare and publish charges after DNO charge publication where a notice period derogation is in place?

As we do not represent LDNOs we have not answered this question.

Q5. 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.

No. We have serious concerns over the proposal to reduce the time scales and believe it will be detrimental to non-domestic customers. We do not agree with the DNO's assertion that longer notice period increases year-on-year variability exposes suppliers and customers to more

uncertain revenue/cashflow. We note that they have provided no meaningful evidence regarding this for non-domestic customers and question the validity of conclusions drawn from the domestic price cap information provided.

Our view, as the trade body for non-domestic suppliers, is that the opposite is true; shorter notice periods give suppliers less ability to accurately price fixed-term contracts and so a greater level of error is therefore present in any multi-year contract forecast. Similarly, for customers on pass-through contracts, any reduction in notice period will reduce the amount of time they have to account for potential changes to their cashflow. We have asked members to provide details on risk premia as the information requested is commercially confidential.

We also note, contrary to the assertion of the DNOs, that DUoS charges are a critical cost factor for non-domestic customers which cannot be hedged (as with wholesale costs) or meaningfully reduced through competition. Certainty on such costs is vital to British Businesses. Again we note no meaningful assessment on the impact on non-domestic customers has been provided by the ENA.

We believe that the only benefit of reducing notice periods is to reduce the regulatory risk to DNOs as they seek to set rates in manner that does not breach under or over-recovery limits. We believe this issue can be addressed using a letter of comfort in the same manner as used for ED2.

We note that this proposal change is part of a number of initiatives by networks to reduce their own risk by moving it onto suppliers, examples being DCP469 and CMP 475. As a general rule, asset backed networks are much better placed to manage risk centrally and access lower capitalisation costs than suppliers. The current notice period for the DNOs provides a level of certainty that benefits customer and any reduction of this or other noticed periods for network charges (in both gas and electricity) will only harm the market.

Q6. 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.

No. In line with the views given above in Q5, any reduction in current notice periods will be detrimental to customers, increasing uncertainty in cashflow for non-domestic customers and suppliers and so harm the market.

Q7. 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?

We have asked members to respond directly to this response as the information provided , but note that the benefits indicated in DCP178 are still being realised as the fundamental market landscape has not significantly changed.

