



Notice period options for network charges for the start of ED3 – Utilita Energy Response

Utilita welcomes the opportunity to respond to this consultation.

Our assessment of the situation and options mirrors Ofgem's. The required notice period for the forecast of DUoS charges must strike a balance between certainty for supplier pricing and forecast accuracy to reduce year-on-year price volatility. We would note that these issues were considered by Ofgem in their 2015 decision to implement DCP178. It is unclear from the consultation what has changed since this decision.

Ofgem has also re-consulted and concluded on the best period to balance certainty, pricing and stability in 2021 following a DNO request to reduce the notice period. It has been set at 15 months and confirmed as 15-months' notice on multiple occasions.

Any reduction in this 15-month notice period shifts recovery risk from DNOs to suppliers and customers. DNOs remain best placed to manage forecasting risks and are best placed to manage any revenue shortfalls associated with forecasting errors.

Suppliers rely on advance visibility of network charges, as we have no other means to account for them when pricing contracts. Shorter notice periods require suppliers to price higher to account for risk and protect against potential under-recovery of network costs, driving up costs to consumers.

This proposal would transfer risk from the DNOs, who regularly exceed their allowed Return on Regulated Equity (RoRE), and transfer this to suppliers who have failed to achieve the EBIT allowances under the price cap according to Ofgem's own State of the Market Report. This appears to be further rewarding DNOs and their shareholders, even though they operate in a risk-free environment, at the expense of suppliers and customers.

While shorter notice periods may reduce year-on-year charge variability from the DNO perspective, the associated forecasting risk would be transferred directly to suppliers and ultimately our customers. This would result in higher energy costs, increased pricing uncertainty and additional pressure on supplier financial resilience. We would also highlight that Ofgem would need to incorporate any reduced notice period into its price cap setting process.

Even Ofgem's preferred Option C would still result in a significant shift in risk from DNOs to suppliers. Such a shift is particularly unwelcome given the significantly greater revenue risk and cash flow pressures on suppliers in comparison to networks.

Options 1 and 2 are therefore heavily preferred by Utilita. These options provide suppliers with sufficient time to incorporate DUoS charges into retail tariffs, support efficient budgeting and forecasting processes, and minimise the need to incorporate risk into customer prices. Longer notice periods also support effective market competition by reducing the level of unmanaged risk suppliers must absorb.