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Commercial Regulation
Electricity Distribution
Ofgem
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Dear Colette

Consultation and impact assessment on Scottish Power's proposed modifications to use of system charging methodology: longer-term methodology for EHV etc

Thank you for the opportunity to comment on these very important proposals.

As a small supplier operating in the SME sector we principally sell up to 4 year fixed price contracts, in response to customer demand and in line with our competitors. We do not have a domestic portfolio, nor do we have any substantive presence in the larger I&C sector.

Due to the nature of methodology changes they principally reallocate costs from one sector to another, therefore small suppliers who do not have a balanced presence in all sectors are exposed to a significantly increased risk profile. We try and forecast all network operator charges going forwards for 5 years; this is mainly an RPI type base and cannot easily take account of methodological changes, and even K factor adjustments cause difficulties. Thus in the event of changes that we have not been able to reasonably forecast we either have to take the financial hit or pass the costs through to our customers. Passing costs through is extremely expensive and very damaging to our reputation if very few other suppliers are doing the same. This we learnt from bitter experience a few years ago when we carried out this operation following a substantive change in DUoS and TNUoS costs. In short uncertainty and volatility of Network operator charges presents an additional barrier to entry and growth to small suppliers that cannot be managed away through any form of effective hedging strategy.

Whilst we appreciate the merits of cost reflectivity, we are also keen on predictability and stability; we would therefore as a pragmatic suggestion propose that the rate of change of any element of costs attributable to a single customer be limited to say 5% per annum.

We are also aware that through the Governance work that OFGEM is proposing to incorporate charging under a single common methodology and governance. We believe that the potential for two significant methodological changes at short notice will create further unnecessary problems for small suppliers such as ourselves. We would therefore urge you to consider suspending any further methodological changes until we have clarity on your intentions regarding future changes so as to avoid unnecessary costs by the DNO's and suppliers in making unnecessary short term changes to their systems and cost bases. We also believe customers value stability and therefore would not wish to see them exposed to such changes unnecessarily at times when they are so sensitised to their electricity costs.

Regards

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