

Bethany Hanna,
Ofgem,
9 Millbank,
London,
SW1P 3GE
bethany.hanna@ofgem.gov.uk

Consultation on DCPI78 Notification Period for Change to Use of System Charges

We welcome the opportunity to respond to Ofgem's consultation on this proposal, which we consider would bring benefits to the market and to end consumers.

Currently the very short notice periods for changes to distribution use of system (DUoS) tariffs combined with the volatility of DUoS charges means that suppliers have significant challenges in accurately forecasting and budgeting for DUoS charges. This has a number of detrimental impacts on the market, including a higher risk premium to manage this uncertainty and the stifling of potential new products that might be possible with greater price certainty.

Increasing the notice period for finalised DUoS tariffs from 40 days to 15 months would be a significant step forward for suppliers in gaining earlier visibility of distribution charges, increasing transparency and certainty over this element of customer charges. Customers would benefit through a reduction in the current risk premium, through an improved ability to forecast and budget for DUoS charges and from the potential to widen the range of products available from suppliers. Reducing the uncertainty around DUoS tariffs will also improve competition between suppliers to the benefit of customers.

While we recognise that the proposal would increase the implementation date for future modifications to the charging arrangements, the notice period is just one stage in the process of change and needs to be taken into account with other factors. Timely introduction and development of modifications through the modification process is also critical. In addition, for significant changes, a longer notice period than 40 days is likely to be entirely appropriate in order to give the market time to adjust. We consider that the benefits of a longer notice period would outweigh the disadvantages of any delay, as the notice period should where possible be factored into the development process.


Our responses to the specific consultation questions are set out in the attachment. However, as a final point we note that one of the key reasons for supporting a longer notice period arises from the volatility



of the charges themselves and the difficulty of prediction. There is a continuing need to work to reduce price volatility produced by the charging methodologies.

I would add that these general arguments are no less applicable to other industry network charges, and we would Ofgem to encourage the industry to bring forward similar change proposals under other codes.

Please let me know if I can clarify any part of this response or provide anything further.

A handwritten signature in blue ink that reads "Nigel Cornwall". Below the signature is a long, sweeping horizontal line that tapers to a point on the right.

Nigel Cornwall
Managing Director
Cornwall Energy

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Response by Cornwall Energy

Benefits and costs

- **Do you agree with the working group's view that DCPI78 would result in these benefits and costs?**

A majority of the working group agreed that increasing the notice period for DUoS tariffs from 40 days to 15 months may have significant benefits for suppliers and consumers and we agree with this view. In summary, tariffs will be more predictable and transparent and there will be improved certainty over future short-term DUoS charges which could also lead to reductions in the charges some customers pay in their supply contract and provide opportunities to innovate.

Responses to the working group consultations on the proposal highlighted a range of benefits to the proposal. They included improved forecasting and increased budget certainty which would enable consumers to better manage their costs. The proposal would aid transparency and therefore comparison of supplier products, as an element of their individual risk policies, related to the risk premium around the uncertainty of DUoS charges, would be removed. Competition between suppliers would thus be improved.

Other benefits were also noted such as customers having more time to shop around for alternative agreements and more accurate data being available for return on investment calculations on energy efficiency projects or load/triad management type initiatives.

All these are material benefits which together make a significant case in favour of the proposed change.

In terms of the costs and other effects of the proposal, the main issue is the longer implementation date for future modification proposals. Clearly, timely implementation of modifications to support significant changes is important. Ofgem has drawn attention to several developments, including the mass roll-out of smart meters, smart grid developments and increases in local, renewable generation, which could prompt changes to the distribution charging methodologies. It is concerned that extending the notice period of charge changes may delay new arrangements and reduce benefits for customers.

The notice for implementation is one element in a series of stages in defining and developing a change requirement, and not necessarily the one which is most likely to be the major cause of delay. An efficient and effective process needs to build in a reasonable period for implementation of any major change in order to enable the market to adjust to changes.

We also note that in discussing the points from Ofgem's decision to reject DCPI64 *Review of the Change Process for Use of System Methodology Changes* in September 2013, the working group understood that the licence would take precedence over the DCUSA and therefore Ofgem could direct an earlier implementation date for any DCUSA change if necessary.

We understand that distribution network operators have raised concerns about the potential impacts, particularly on their over/under-recovery situation, but also that several have still voted to accept the proposal.

- **Are there any other benefits and costs that you think would result from DCPI78?**

The key benefits and costs are covered in our response to the previous question.

- **For suppliers and customers, can you provide supporting evidence for the benefits identified by respondents to the working group's consultations?**

[Suppliers to provide supporting evidence. For example, Haven Power identified in its consultation response that it estimated prices would be 3% lower if there was no uncertainty in third party charges.]

Further considerations

- **Do you think the proposed notice period would cause any issues with implementing any changes to charges which may be required due to developments in the operation of the network?**

No, the aim of the proposal is not to stop any changes to the charging methodology being progressed in a timely manner but to ensure some stability in the tariffs for suppliers and consumers.

▪ **Do the benefits of certainty outweigh any costs or effects of delay?**

There is clearly a judgement to be made between the benefits of certainty and any detrimental effects of delay. We cannot be certain of the impacts of delay on future charge modification proposals which have yet to be raised. However, under a regime with a longer notification period, the requirement to factor this into the modification development process will be apparent. By contrast, the advantages to increasing the notification for changes to DUoS charges are clear and tangible and could realise benefits to the market and to consumers in short timescales.

▪ **Can you give examples over the next five years of likely changes to distribution charges that are critical to deriving benefits but which would be delayed unduly if DCPI 78 was approved?**

No, we have not identified any changes that would be “unduly” delayed. As noted above, the overall change process should take into account the need for the timely raising of proposals and development of these, as well as the implementation period.