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To...

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Subject: Consultation on a proposal to increase significantly the notification period for changes to distribution use of system charges

From: Tom Chevalier
Sent: 19 August 2014 15:14
To: Bethany Hanna
Subject: Consultation on a proposal to increase significantly the notification period for changes to distribution use of system charges

Thanks for the opportunity to respond to these proposals. I disagree that the notice period should be extended.

Reasons are:

- The shorter notice allows for innovation and rapid revision of charges
- In effect any changes of approach would need to be agreed about two years in advance of implementation
- Allows for structural changes such as P272 which have a consequential impact on all customers to be implemented in good time so that the benefits of the changes can be realised quickly. It is impossible to introduce a structural change while retaining the same customer charges. So this would undermine any presumption of fixing prices into the future
- If there is a long delay from proposing a price change to implementing it, then that can lead to significant changes in charges (albeit with notice) rather than more frequent smaller changes. When some of the underlying factors (such as a forecast of inflation) may have significantly changed in the intervening period.
- The arguments from customers and suppliers about uncertainty about fixing prices are in my view unclear. DUoS charges only account for some 15% of the customer bill, so any percentage change only has a small effect on the overall bill. We have seen significant changes in recent years from purchase energy cost changes, and participants are keen to see changes applied quickly - suppliers for increases, customers for decreases. If there was a delay of over 15months for a significant reduction in charges I suspect customer may become extremely vocal.
- Increasing numbers of industrial customer and commercial customers already receive pass through charging for DUoS to minimise the risk of supplier adding a risk premium. Although the customer may wish to be able to budget perfectly, into the future that is never possible for every aspect of any business. Suppliers will continue to take a view of the risk premium and the customer will continue to choose whether to fix or not.
- The CDCM and resultant DUoS charges are relatively new, there have been some changes to seek to improve the methodology but the underlying reason for the instability is the reliance that model has on a small number of poorly defined assumptions and input factors. I am also aware of some errors of input data which have had material impact for certain customer groups in certain areas. I have been involved in a number of changes to the CDCM and am concerned about the lack of robustness in the methodology. The methodology itself is poorly understood by most of the participants, including myself. A simplification and improved transparency of the methodology would enable all stakeholders to better predict the future outcomes and should lead to greater stability.
- One of the significant variances is the winter peak demand and volume over the winter. The gas industry is even more sensitive to the winter consumption and as a result set the charges effective from 1st Oct each year. This allows for the outcome of the previous winter to be incorporated into the charges for the following winter. This approach may assist in more accurate volume forecasting and therefore price stability. Currently the forecast for the forthcoming year Y is based on the outturn of the prior year(Y-2), which is not ideal.

I trust these points are of value.

Tom Chevalier