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ICoSS response to the Ofgem consultation on a proposal to increase significantly the notification period for changes to distribution use of system charges (DCP 178)

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 market. Members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers¹.

Benefits

We strongly agree with the working group's recommendations with regard to the benefits, in particular the reduction in risk premiums that a supplier will have to pass through to their customer where they do not operate pass through contracts (such as tariffs). Suppliers who do pass through costs will also benefit as it means that the administrative costs of adjusting charges mid-year, and answering customer query on such adjustments, will be avoided. In addition customers on pass through contracts will benefit from the certainty that a 15 month period will provide for their system costs, which will aid their financial planning. We also agree that this change will benefit smaller suppliers who are less able to bear the risk of unpredictable and short notice DUoS charges than larger organisations.

Perceived Costs and Drawbacks

The current process allows DNOs to pass through all risk of changes to their level of cost recovery through to suppliers at relatively short notice. For such low risk business who are



provided a certain level of revenue each year, we do not understand why the limited risk they do carry on under or over-recovery needs to be transferred to other parties who, owing to the nature of the market they operate in, are exposed to far higher levels of risk. With that in mind, we disagree with the perceived costs that have been identified with regard to DNOs, in particular the possible shortfall of revenue. We note that the DNOs, as ultimate controllers of the methodology, are well placed to ensure that the risks of shortfall are minimised. Though we are mindful of the impact such changes may have on the DNOs discharging their licence conditions, the distribution licence can and is regularly adjusted to take into account policy changes and if necessary can be again to facilitate this change.

In terms of the impact that the 15 month notice period will have for both IDNO & DNO investment, we are not convinced of the argument that such a delay would unduly impede new activities or investment. Considering the necessary lead-time for commencing new work programmes (such as the development of smart grids or mandating HH metering to PC5-8) we would expect that any proposals for new funding would have a substantial leadtime. We note that discussion of smart grid development has been progressing in earnest for a couple of years and no set policy proposals are in place as of yet – 15 months lag of funding will not delay the implementation of these new policies any further.

Yours sincerely

A handwritten signature in grey ink, appearing to read "G. Evans".

Gareth Evans
Chair ICoSS