

Jame Veaney  
Ofgem

2<sup>nd</sup> May 2018

Dear James,

## **ICoSS response to RIIO-2 framework consultation**

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 suppliers<sup>1</sup>.

We wish to make the following points to the consultation regarding stakeholder engagement, price control and incentives:

### **Stakeholder Engagement**

We support reform of the current stakeholder incentive. ICoSS has directly engaged with a number of transporters during this current price control as part of its stakeholder incentive. We have not found this to be an optimal process as it does not seem to have led to the benefits Ofgem were hoping for in terms of improved customer engagement. There does not seem to be a need to replace the current incentive with a similar process however, as meaningful customer engagement will occur during a transporter's operations, such as system reinforcement, emergencies, etc. Measurement of a transporter's responsiveness should be undertaken after those engagements with the customers involved. Such a process is currently successfully undertaken by suppliers as part of the smart metering rollout process. Assessing transporter performance at these touchpoints will give a more realistic understanding of customer satisfaction than soliciting the opinions of an industry or consumer board.



## **Price Control**

It is important that the price control can respond to the needs of the industry to ensure that incentive remain fit for purpose and set at an appropriate level. We support the shortening of the price control to 5 years, as this will allow greater flexibility in ensuring price control settings are correct.

## **Incentives**

We agree that a holistic approach should be taken in determining performance as this will help promote focus on the key deliverables for a distribution networks in a transparent and cost-effective manner. This will also help drive innovation, avoiding the need for additional incentive schemes. A key deliverable is minimising energy losses. A transparent, whole-market, approach, where the transporter is incentivised to minimise losses, will be the most effective way in achieving this.

The current regime does not wholly align with this goal in gas. At present losses are accounted for separately with some allocated to suppliers and some to transporters. This results in a mismatch in approach in targeting these issues, causing gaps and overlaps in processes. Despite a substantial level of work being undertaken by the industry to tackle theft and other losses, the un-coordinated and piecemeal approach reduces the efficiency of the process and ultimately hinders tackling the cause of theft.

The current process for accounting for losses needs to be reformed into two key ways. Firstly the current process for determining losses (the shrinkage model) needs to be undertaken by an independent third party, rather than by the transporters themselves. This should improve transparency and give confidence to customers that losses are being properly accounted for. It would also open up this activity to competition. Secondly there is merit in consolidating all losses with the transporters, who will be able to take a holistic whole market view (for example consumption patterns and customer information in a street cannot be compared by competing suppliers, but can by the transporter). This has precedence in other European Markets, such as the Netherlands.

Please let me know if you wish to discuss the points above further.

Yours sincerely

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

Gareth Evans