

## DCP 437 Working Group Meeting 05

22 January 2025 at 10:00 - Web-Conference

Attendee	Company
<b>Working Group Members</b>	
Chris Barker [CB]	ENWL
Ed Grimsey [EG]	BUUK
Andrew Harris [AH]	UKPN
James Harvey [JH]	Ofgem
Lauren Roy [LR]	SPEN
Chris Ong [CO]	UKPN
Emma Clark [EC]	SSE
Kara Burke [KB]	NPg
Victoria Burkett [VB]	SSE
Edda Dirks [ED]	SSE
David Wornell [DW]	National Grid
<b>Code Administrator</b>	
Richard Colwill [RC]	Chair
Hannah Proffitt [HP]	Secretariat

### 1. Administration

#### Recording

- 1.1 The Chair asked members if they were comfortable for this meeting to be recorded. No members objected to this request. The purpose of this recording is purely to aid the Technical Secretariat in producing an accurate report of the meeting. The recording will be deleted once the minutes are approved at the end of the next meeting.

## Apologies

- 1.2 No apologies were received.

## Competition Law Guidance and Terms of Reference

- 1.3 The Working Group reviewed the “Competition Law Guidance” and “Terms of Reference”. All Working Group members agreed to be bound by the Competition Law Guidance for the duration of the meeting and agreed to the Terms of Reference.

## 2. Purpose of the Meeting

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- 2.1 The Chair advised that the purpose of the meeting was for the Working Group to discuss the authority send back letter and consider next steps.

## 3. Discussion of Authority Send Back Letter

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- 3.1 The Chair advised that Ofgem issued a letter dated 21 November 2024 stating they did not have enough information to make a decision on the change.
- 3.2 JH provided an overview of the letter, outlining that Ofgem recognise the Working Group explored the amount of time a Supplier would face uncertain Distribution Use of System (DUoS) costs when pricing a fixed term contract. However, believe that a more detailed understanding of how consumers will be impacted is required.
- 3.3 The letter requests a quantitative insight into the potential increase in risk premia, alongside how the premia will affect the bills of the consumer groups. JH noted that Ofgem would also welcome any additional qualitative evidence on the distributional impacts.
- 3.4 AH asked if this referred to all consumers or particular groups, e.g. domestic customers, small business customers etc. JH confirmed that they would like to see the impacts on all cohorts, although they understand it will mainly impact small domestic consumers.
- 3.5 Regarding risk premia, the Proposer (DW) questioned how Ofgem calculate this as they set the price cap which dictates the amount that Suppliers can charge customers. JH agreed to refer this question internally.
- 3.6 Regarding the price cap, AH noted that there are mechanisms included to recover where the forecast was inaccurate, however that there are many other areas which have a more significant risk.
- 3.7 DW agreed that it is a very small percentage of the bill and that the higher the wholesale price goes, the smaller the percentage of the bill. DW noted that the change requests one extra months’ notice because of the licence conditions that were imposed allowing Ofgem to change allowed revenue at short notice. DW reiterated that as the process currently stands, DNOs are under pressure.
- 3.8 AH agreed and questioned how many tariffs there are that are fixed for longer than 14 months, as these are the only tariffs effected. AH suggested that Ofgem may receive this information from Suppliers.

- 3.9 VB suggested that a Request for Information (RFI) is issued to Suppliers to ask for the risk premia information Ofgem requires. VB noted that the difference between the 15 months and 14 months would need to be calculated.
- 3.10 The Working Group discussed how this could be calculated.
- 3.11 CB suggested that this could be better handled by an outside consultancy as discussion of pricing decisions could affect competition. CB suggested that one possible method could be to attempt to infer risk premia from issued prices and do some analysis that would attempt to disaggregate the various components of pricing decisions. CB also suggested looking at different markets, such as gas and transmission where notice periods are different.
- 3.12 CB suggested that they could expand the question of what one month's difference would be, to what the risk premia would be across a period of time to see if there is scope to reduce notice by a further amount. If there is minimal impact for consumers and market conditions this could be an opportunity to reduce risk and volatility in DUoS pricing.
- 3.13 The Chair advised that DCUSA use CEPA/TNEI for modelling work and suggested that he could investigate the possibility of using them. The Chair confirmed that permission would be required from the DCUSA Board.
- 3.14 DW raised that the price cap removes any Supplier control over the risk premia. CB noted that it would be expected that a lower risk premium would apply to DUoS and wholesale costs because they are more stable and predictable even outside of the notice period.
- 3.15 AH agreed and noted that the price cap is based on a forward-looking cost for a 12-month period but is set in advance so they would be looking at crudely a 15-month window, but it is quickly recovered back. Within the price cap there are other charges that are more volatile, such as intraday balancing.
- 3.16 AH noted that it comes down to what tariffs Suppliers are offering. AH suggested that Ofgem should be able to determine a reasonable assumption of how much risk could be put on a contract longer than 14 months. AH added that they believe there are very few of these contracts.
- 3.17 DW agreed that the ability to understand risk premia lies within Ofgem and noted that they should have investigated this internally initially before returning to the Working Group. DW suggested that a question should be raised to the price cap team regarding what they would factor in to risk premia if the notice period was changed.
- 3.18 JH advised that they had spoken to the finance regulation and price cap teams who had advised returning to the Working Group to find out the impact on consumer bills. JH noted that they could pick this back up with those teams following this discussion.
- 3.19 The Chair raised the earlier suggestion of looking into CEPA completing this analysis. AH suggested that they might be able to produce a methodology. CB raised that each Supplier will use different assumptions and methods to calculate risk premia and therefore it will be very difficult to model.
- 3.20 DW suggested adding rows to the table within the Change Report including what the risk premia would be for a standard bill of £100. AH agreed to develop a spreadsheet aiming to return a potential

risk premium expressed as a percentage which could be used to assess the effects of the change. The Working Group agreed.

Action 05/01 – AH to develop a spreadsheet that can be used to assess risk premium and therefore the possible effects of the change.

- 3.21 AH raised that, if there is so much concern surrounding distribution charges and risk premia, what is being done about the other charges that are more volatile and have less notice. For example, transmission. JH agreed to take this away.
- 3.22 The group agreed for AH to complete this analysis and that CEPA would not be required. CB noted that there is also a question surrounding the number of affected contracts and asked if this is relevant to the decision or whether it is just a risk premium number for a single theoretical contract.
- 3.23 AH suggested that if the analysis indicates a negligible effect, the number of people who take the contracts will not be important. However if the effect is significant, questions surrounding how many of these contracts are taken out, when they are set and when they are taken out, will be relevant.
- 3.24 ED asked if more input should be sought from Suppliers. JH agreed that Supplier input would be welcomed.
- 3.25 The Working Group agreed that an RFI should be issued to Suppliers to give them the opportunity to provide input. The Working Group agreed for the analysis from AH to be included in the RFI and for Suppliers to raise any alternatives if they disagree.
- 3.26 CB suggested that if an RFI is going to be issued, the question of customer numbers on affected contracts should be included. The Working Group agreed to ask Suppliers what percentage of their client base are on contracts that are greater than 14 months, split between domestic and non-domestic. And for the non-domestic customers, how many pass through, as these will need to be excluded.
- 3.27 The Working Group asked JH whether the work discussed would address Ofgem's concerns. JH agreed that the analysis would go a long way to address the points in the send back letter.
- 3.28 ED raised that in the Change Report, the Working Group had discussed a hybrid option where notice periods would only be reduced in years it was needed. JH noted that the same questions regarding the impacts would be relevant.
- 3.29 AH raised that they can see Suppliers have put two year contracts out even though there are a number of DNOs who have not published their charges yet because of the derogation. AH suggested that this could imply the distribution charges are not that important. CB noted that it is unknown how much risk premium has been added to those prices.

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## 4. Next Steps and Work Plan

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### 4.1 The next steps were agreed:

- AH to provide a model to assess risk premium.
- The Chair to draft an RFI aimed at Suppliers including the model, asking whether Suppliers feel it is reasonable. In addition, the RFI will ask Suppliers what percentage of their client base are on contracts that are greater than 14 months, split between domestic and non-domestic. And for the non-domestic customers, how many are pass through, as these will need to be excluded.
- The Chair to issue the draft RFI to the Working Group members for agreement.
- Once issued, a doodle poll to be sent out with dates for the next meeting approximately one week after RFI closes.

## 5. Any Other Business

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### 5.1 No other business was raised.

## New and Open Actions

Action Ref.	Action	Owner	Update
05/01	AH to develop a spreadsheet that can be used to assess risk premium and therefore the possible effects of the change.	AH	New Action. <i>Post meeting update – AH completed this and it was circulated to the group on Friday 24 January.</i>

## Closed Actions

Action Ref.			Update