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5 May 2021

Dear Patrick,

**Request for the Gas and Electricity Markets Authority (the “Authority”) to give formal directions in respect of the notice periods for changes to Distribution Use of System charges for the first two years of RIIO-ED2.**

Further to the paper submitted to Ofgem in February 2021<sup>1</sup>, we are writing on behalf of each of the Distribution Services Providers (as defined in the electricity distribution licence) and listed at the end of this letter (the “licensees”) and known as Distribution Network Operators (DNOs), to request that the Authority issues the necessary directions such that the 15 months’ notice period required for Use of System charges need not apply for prices commencing 1 April 2023 and 1 April 2024, due to the need to properly and accurately reflect allowed revenue for RIIO-ED2 within the prices.

**Background**

**a. The Distribution Connection and Use of System Agreement (the “DCUSA”):**

Under clause 19.1A of the DCUSA, a licensee is required to give 15 months’ notice of a change to its Use of System Charges. This is a contractual requirement that applies in addition to the licence obligation noted below.

In accordance with this requirement, the licensees published Use of System Charges for the 2022/23 Regulatory Year in December 2020 and are due to publish Use of System Charges for the 2023/24 Regulatory Year by the end of December 2021.

**b. The Electricity Distribution Licence:**

The Electricity Distribution Licence also contains provisions to vary Use of System Charges. Paragraph 14.11 of standard condition 14 of the electricity distribution licence requires the licensee to give not less than three months’ notice of changes to its Use of System Charges.

**c. The RIIO-ED2 Timetable**

The likely RIIO-ED2 timeline as published on 1 February in Ofgem’s RIIO-ED2 Business Plan Guidance is as set out below. It highlights that Use of System Charges for the 2023/24 Regulatory Year – the first year of RIIO-ED2 – must be published the same month as Final Business Plan submissions are required to be submitted to Ofgem, and approximately one year before it publishes the Final Determinations and launches the statutory consultation on the RIIO-ED2 licence conditions. In addition, if DNOs decide to

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<sup>1</sup> See appendix A.

appeal the RIIO-ED2 Final Determinations to the Competition and Markets Authority (CMA), and were successful, then final allowed revenues for the 2023/24 Regulatory Year may not be known until around September 2023.

Indicative timeline for RIIO-ED2	Milestone
1 July 2021	Draft Business Plan submission to RIIO-ED2 Challenge Group
1 December 2021	Final Business Plan submission to Ofgem and the RIIO-ED2 Challenge Group
Spring 2022	Open Hearings
June 2022	Draft Determinations
Autumn 2022	Open Meetings
December 2022	Final Determinations Statutory consultation on RIIO-ED2 Licence
February 2023	Decision on RIIO-ED2 Licence
1 April 2023	Start of RIIO-ED2

**d. The need for the Authority to issue the requested directions:**

Under the current arrangements the licensees would be required to set prices for the 2023/24 Regulatory Year by 31 December 2021 when allowed revenues for RIIO-ED2 are unknown. To do so, and to align with the most likely RIIO-ED2 outcome, licensees would need to estimate allowed revenue for the 2023/24 Regulatory Year using their Final Business Plan submission. This approach would maintain a 15 months’ notice period but may risk significant price volatility later in RIIO-ED2 as estimates and assumptions are updated with Final Determination values. This uncertainty (for the licensees and stakeholders) would be compounded by the removal of lagged allowance adjustments<sup>2</sup>.

Tariff volatility is a problem for Supply licensees and other market participants, and it could also pose financeability risks for the licensees driven by cash flow volatility as future revenues would be unnecessarily exposed to corrections stemming from estimates made before Final Determinations are agreed<sup>3</sup>. RIIO-ED2 plans will likely include a significant emphasis on decarbonisation and therefore additional costs to achieve Net Zero by 2050. Aligning the setting of RIIO-ED2 Use of System charges to the Final Determinations mitigates risks to the licensees, and therefore to stakeholders, by aligning the timing and funding of network investment.

Following assessment of various options to mitigate against the issues, as set out in the February 2021 paper submitted to Ofgem, the licensees request the directions set out below such that they publish Use of System Charges commencing 1 April 2023 at 60 days’ notice, or 20 working days after the Authority

<sup>2</sup> This appears to be Ofgem’s preference and follows the precedent set in the Authority’s decision on changes to the RIIO-2 cross sector licence conditions ahead of RIIO-ET2 and RIIO-GD2: [https://www.ofgem.gov.uk/system/files/docs/2021/02/riio-2\\_licence\\_drafting\\_modifications\\_-\\_reasons\\_and\\_effects.pdf](https://www.ofgem.gov.uk/system/files/docs/2021/02/riio-2_licence_drafting_modifications_-_reasons_and_effects.pdf)

<sup>3</sup> This may be driven by a combination of differences in: (i) cost allowances; (ii) cost of debt allowance; (iii) cost of equity allowance; (iv) tax allowances; and (v) regulatory depreciation.

publishes the Final Determination – whichever is the later. This should allow the licensees to base the 2023/24 Regulatory Year Use of System Charges on the Final Determinations, thereby reducing the risk of significant price volatility later in RIIO-ED2.

Assuming the Final Determinations are published in December 2022, and providing 60 days' notice, Use of System Charges for the 2023/24 Regulatory Year would be published no later than 31 January 2023. This would provide a further 20 days for Independent Distribution Network Operators (IDNOs) and DNOs operating Embedded Distribution Networks (EDNs) to publish their Use of System Charges with the default 40 days' notice as set out in the DCUSA.

Charges for the following year (2024/25) are similarly affected and, without adjustment, licensees would be required to publish Use of System Charges effective from 1 April 2024 by 31 December 2022, i.e. before 2023/24 charges had been published and reliant on estimations and assumptions ahead of Final Determinations – again, at the risk of introducing future volatility.

As with 2023/24, to avoid this conflict the requested directions needs to also apply to the 2024/25 Regulatory Year, such that Use of System Charges commencing 1 April 2024 will be published with *at least*<sup>4</sup> three months' notice, no later than 31 December 2023. This would provide around 50 days for IDNOs and DNOs operating EDNs to publish their Use of System Charges whilst providing the default 40 days' notice as set out in the DCUSA.

In addition, the licensees recognise that the outcome of Ofgem's Access and Forward-Looking Charges Significant Code Review (the 'Access SCR') may be implemented in the 2024/25 Regulatory Year and may therefore require the requested directions to implement the reform regardless of the RIIO-ED2 timeline. The Access SCR decision will also consider the compatibility of the reform and providing 15 months' notice on an enduring basis.

## **Directions Sought**

### **1. The Electricity Distribution Licence:**

Each licensee requests that the Authority issues a direction to the licensee under paragraph 14.12 of standard condition 14 of the electricity distribution licence relieving the licensee of the obligation in paragraph 14.11 of standard condition 14 of the electricity distribution licence to provide, not less than three months' notice before the date on which it proposes to amend its Use of System Charges,

- a) give the Authority a Notice setting out those proposals, together with an explanation of them (including a statement of any assumptions on which the proposals are based); and
- b) send a copy of such Notice to any person who has entered into an agreement for Use of System in accordance with the provisions of this licence.

The direction should apply to changes to Use of System Charges for Regulatory Years 2023/24 and 2024/25.

### **2. The DCUSA:**

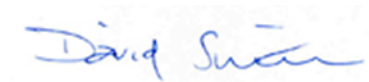
Each licensee requests that the Authority issues a direction to the licensee under clause 19.1B of the DCUSA that the period of notice described in clause 19.1A of the DCUSA (i.e. 15 months) shall not apply.

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<sup>4</sup> The licensees would intend to publish Use of System Charges for the 2024/25 Regulatory Year as soon as practicable after the Authority publishes the Final Determinations, subject to possible CMA appeals.

The direction should apply to changes to Use of System Charges for Regulatory Years 2023/24 and 2024/25.

Yours sincerely



David Smith  
Chief Executive

On behalf of:

1. Electricity North West Limited
2. Northern Powergrid (Northeast) plc
3. Northern Powergrid (Yorkshire) plc
4. SP Distribution plc
5. SP Manweb plc
6. Scottish Hydro Electric Power Distribution plc
7. Southern Electric Power Distribution plc
8. Eastern Power Networks plc
9. London Power Networks plc
10. South Eastern Power Networks plc
11. Western Power Distribution (East Midlands) plc
12. Western Power Distribution (West Midlands) plc
13. Western Power Distribution (South West) plc
14. Western Power Distribution (South Wales) plc

# Appendix A: DNO DUoS Price Setting for the start of RIIO- ED2

## Introduction

### Purpose

The purpose of this paper is to raise the issue with Ofgem regarding the conflict between the publication of the RIIO-ED2 Final Determination and the annual charge setting process which requires 15 months' notice of distribution use of system (DUoS) charges. It also sets out and evaluates a number of potential options for setting DUoS tariffs for the first year(s) of RIIO-ED2 when the final allowed revenues would not be known. Finally, it details the DNOs' preferred option and recommends the next steps.

### Background

At the beginning of RIIO-ED1, the combination of (i) a two-year lag on the recovery of most non-base revenue allowances, and (ii) a three-month notice period (40 days under the distribution connection and use of system agreement (DCUSA)), meant that when DUoS charges were published, any over/under-recovery would almost entirely be driven by actual demand/usage of the network (e.g. consumers using more, or less, electricity).

DCP178 'Notification period for change to use of system charges' was implemented on 5 November 2015, meaning that DNOs published DUoS tariffs for both 2016/17 and 2017/18 before 31 December 2015. The 15 months' notice period means that DNOs must:

1. forecast demand over two winter periods<sup>5</sup>; and
2. forecast costs and incentive performance despite a two-year lag<sup>6</sup>.

Therefore, as a result of providing 15 months' notice, volatility in over/under-recovery increased, but industry parties receive earlier notification of the impact.

Whilst allowed revenue may vary more materially (as a result of 15 months' notice) between tariff setting assumptions and the final position, there is reasonable certainty that the variance will not be significant. This is generally true as the vast majority of allowed revenue relates to Base Demand Revenue (i.e. the efficiently incurred costs and a return on those costs that the Authority has determined the DNO can recover), which is locked down at the beginning of a price control<sup>7</sup>.

However, allowed revenues for the RIIO-ED2 period are at present unknown. Under the current DCUSA arrangements, prices for the start of RIIO-ED2, commencing 1 April 2023, will need to be published by 31 December 2021.

The requirement to provide 15 months' notice is set out in the DCUSA, an extract of which is shown in Figure 1 below.

The DCUSA allows for other charges (e.g. the provision of MPAS, Legacy Meter Asset Provision and Data services) to be varied on the provision of 40 days' notice.

The Electricity Distribution Licence also contains provisions to vary DUoS charges as set out below (Figure 2).

<sup>5</sup> e.g. DNOs published 2021/22 DUoS tariffs in December 2019, therefore forecast customer behaviour over the winter period at that time i.e. the end of 2019/20, and for both 2020/21 and 2021/22. DNOs therefore were unable to consider the impact of COVID-19, and the associated reductions in demand.

<sup>6</sup> e.g. 2022/23 allowed revenue includes pass-through costs and incentive performance relating to 2020/21, but DUoS tariffs for 2022/23 were published in December 2020, during that regulatory year.

<sup>7</sup> Albeit is subject to some annual true-ups via the annual iteration process.

Figure 1: Extract from DCUSA

19.1A The Company may vary the Use of System Charges at any time by giving the requisite period of written notice to the User. The requisite period of notice is (subject to Clause 19.1B):

19.1.1 where the Company is a DNO Party acting within that DNO Party's Distribution Services Area:

(A) in the case of the charges to apply from 1 April 2016 only, 3 months; or

(B) in the case of the charges to apply on or after 1 April 2017, 15 months;

19.1B The periods of notice described in Clause 19.1A shall apply unless the Authority directs the Company that those periods of notice need not apply. Where the Authority directs the Company that those periods of notice need not apply, the notice period shall be 40 days (without prejudice to any longer notice requirements prescribed by the Distribution Licence).

Figure 2: Extract from Electricity Distribution Licence

**Part F: Amendment of the licensee's Use of System Charges**

14.11 The licensee must, not less than three months before the date on which it proposes to amend its Use of System Charges in respect of any agreement for Use of System:

(a) give the Authority a Notice setting out those proposals, together with an explanation of them (including a statement of any assumptions on which the proposals are based); and

(b) send a copy of such Notice to any person who has entered into an agreement for Use of System in accordance with the provisions of this licence.

14.12 Except where the Authority otherwise directs or consents, the licensee may only amend its Use of System Charges in respect of any agreement for Use of System if:

(a) it has given Notice of the proposed amendment in accordance with paragraph 14.11;

(b) the amendment, when made, conforms to the proposals set out in that Notice (except for any necessary revisions resulting from the occurrence of a material change after the Notice has been given, to any of the matters on which the assumptions set out in the statement under paragraph 14.11 were based, and then only to such extent as is necessary to reflect the change in such matters); and

(c) the amendment takes effect on 1 April of the relevant Regulatory Year.

For context, it is worth noting that NGESO provides two months’ notice for varying transmission network use of system (TNUoS) charges. CMP244 ‘Set final TNUoS tariffs at least 15 months ahead of each charging year’ originally sought to amend the TNUoS notice period to a minimum of 15 months, but was subsequently amended to 200 days in the proposal. However, contrary to the view of the CUSC Panel, the Authority rejected CMP244 on the basis that it did not provide sufficient evidence that it better facilitated the CUSC charging objectives<sup>8</sup>.

It is also our understanding that GDN’s provide two months’ notice for varying their final use of system charges. Continuing with 15 months’ notice appears inconsistent with what the Access and Forward-Looking Charges Significant Code Review (the ‘Access SCR’) is trying to achieve (e.g. more responsive DUoS charges which reflect changes on the network and influence customer behaviour, potentially at a more ‘local’ level). It is also noted that the notice period is inconsistent with TNUoS notice period which reduces the benefits of price stability which the introduction of the 15 months’ notice period was meant to achieve.

## RIIO-ED2 Timetable

The likely RIIO-ED2 timeline as published on 1 February in Ofgem RIIO-ED2 Business Plan Guidance is as set out below. Therefore, DUoS tariffs for 2023/24 – the first year of RIIO-ED2 – must be published the same month as Final Business Plan submissions are required, and one year before the Authority launches the statutory consultation on RIIO-ED2 Final Determinations.

Indicative timeline for RIIO-ED2	Milestone
1 July 2021	Draft Business Plan submission to RIIO-ED2 Challenge Group
1 December 2021	Final Business Plan submission to Ofgem and the RIIO-ED2 Challenge Group
Spring 2022	Open Hearings
June 2022	Draft Determinations
Autumn 2022	Open Meetings
December 2022	Final Determinations
	Statutory consultation on RIIO-ED2 Licence
February 2023	Decision on RIIO-ED2 Licence
1 April 2023	Start of RIIO-ED2

In addition, if DNOs decided to appeal the Decision on the RIIO-ED2 Licence changes to the Competition and Markets Authority (CMA), and were successful, then the final 2023/24 Allowed Revenues may not be known until September 2023.

<sup>8</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/08/cmp244\\_256\\_decision\\_letter\\_final.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/08/cmp244_256_decision_letter_final.pdf)



## Options for 2023/24 DUoS Price Setting

### **Option A: Retain 15 months' notice period**

- Publish final prices for 2023/24 by 31 December 2021.
- DNOs to estimate 2023/24 allowed revenue using their Final Business Plan submission.
- DNOs to base 2024/25 allowed revenue on the Draft Determination<sup>9</sup> and publish final prices by 31 December 2022.
- Differences in allowed revenue for 2023/24 (and 2024/25 if Final Determination varies from the Draft Determination) following Final Determination (and subject to successful DNO CMA appeals) to be reflected in remaining three years of RIIO-ED2 (i.e. from 2025/26).
- Any true-up may be subject to a view on materiality, to minimise stakeholder disruption.

Under this option no DCUSA or Licence changes are required. However, there may be need for Ofgem to provide assurance that penal interest due to under/over-recoveries as a result of divergence between price setting assumptions and final allowed revenue would not be applied.

### **Option B: Move to 3 months' notice period (Draft Determination)**

- Publish final prices for 2023/24 by 31 December 2022.
- DNOs to estimate 2023/24 allowed revenue using the Draft Determination<sup>10</sup>.
- Differences in allowed revenue for 2023/24 following Final Determination (subject to any successful DNO CMA appeals) to be reflected in the remaining four years of RIIO-ED2 (i.e. from 2024/25).
- Publish final prices for all subsequent years by 31 December in the regulatory year t-1 (i.e. the December before the regulatory for which the tariffs are effective from).

Under this option no Licence changes are required. However, it is expected that significant changes are likely to be introduced to implement the Access SCR if the changes are to commence from April 2024.

The DCUSA would need to be amended as follows (the corresponding IDNO clause would need to be amended also):

- 19.1.1 where the Company is a DNO Party acting within that DNO Party's Distribution Services Area:*
- (A) in the case of the charges to apply from 1 April 2022 only, 15 months; or*
- (B) in the case of the charges to apply on or after 1 April 2023, 3 months;*

### **Option C: Move to 40 days' notice period for 2023/24, 3 months' notice thereafter**

- Publish indicative prices for 2023/24 by 31 December 2022; DNOs to estimate allowed revenue using the Draft Determination.
- Publish final prices for 2023/24 by 20 February 2023; DNOs to estimate allowed revenue using the Final Determination<sup>11</sup>. Differences between indicative and final prices are likely to affect fixed charges only due to the Targeted Charging Review (TCR) changes, and could be subject to a materiality threshold.

<sup>9</sup> Final Determination could possibly be used instead if this were available in early December to allow time for DNOs to produce charges and obtain the necessary internal approvals. Locking down at Draft Determination allows DNOs to communicate this to suppliers in the August and November DCUSA Schedule 15 forecasts too. These tariffs are likely to include changes as a result of the Access SCR also based on latest information from Ofgem.

<sup>10</sup> Final Determination could possibly be used instead if this were available in early December to allow time for DNOs to produce charge and obtain the necessary internal approvals. Locking down at Draft allows DNOs to communicate this to suppliers in the August and November DCUSA Schedule 15 forecasts too. These tariffs are likely to include changes as a result of the Access SCR also based on latest information from Ofgem.

<sup>11</sup> Final Determination would be need by mid-January 2023 at the latest to allow time for DNOs to set tariffs as per above.

- Differences in allowed revenue for 2023/24 following any successful DNO CMA appeals to be reflected in remaining four years of RIIO-ED2.
- Publish final prices for all subsequent years by 31 December in the regulatory year t-1 (i.e. the December before the regulatory for which the tariffs are effective from).

Under this option no Licence changes are required. However, it is expected that significant changes are likely to be introduced to implement the Access SCR if the changes are to commence from April 2024.

The DCUSA would need to be amended as follows (the corresponding IDNO clause would need to be amended also):

- 19.1.1 where the Company is a DNO Party acting within that DNO Party's Distribution Services Area:*
- (A) in the case of the charges to apply from 1 April 2022 only, 15 months; or*
  - (B) in the case of the charges to apply on or after 1 April 2023, 40 days; or*
  - (C) in the case of the charges to apply on or after 1 April 2024, 3 months;*

**Option D: Move to shorter notice periods for first two years of RIIO-ED2, 15 months' notice thereafter**

- For 2023/24 use Options B or C i.e. three months (by 31 December 2022) or 40 days (by 20 February 2023) final notice.
- For 2024/25 set prices by 31 December 2023 or potentially when revenues have been finalised by the acceptance of the Licence conditions.
- Provide 15 months' notice thereafter.

Under this option no Licence changes are required. However, it is expected that significant changes are likely to be introduced to implement the Access SCR if the changes are to commence from April 2024.

The DCUSA could be amended to reflect this but additional flexibility would be provided if Ofgem were to issue the appropriate directions instead.

**Option E: Move to three months' notice for first year of RIIO-ED2, 15 months' notice thereafter**

- For 2023/24 publish final charges by 31 December 2022 .
- Provide 15 months' notice thereafter, meaning charges for 2024/25 would also be published by 31 December 2022.

Under this option no Licence changes are required. However, it is expected that significant changes are likely to be introduced to implement the Access SCR if the changes are to commence from April 2024.

Any variance between Draft Determination and Final Determination, or following any successful CMA appeal, would be corrected by over/under-recovery as standard.

The DCUSA could be amended to reflect this but additional flexibility would be provided if Ofgem were to issue the appropriate directions instead.

**Option F: Mid-Year Price Adjustments**

- For 2023/24 use Options A or B i.e. retain 15 months' notice and true-up in the price control settlement, or move to three months' notice.
- Revise prices when revenues have been finalised by the acceptance of the Licence conditions which for 2023/24 could require mid-year adjustment, possibly subject to a materiality threshold relating to over/under-recovery projections.

Under this option no Licence changes are required, however Ofgem would need to issue a direction under SLC 14.12 to allow prices changes other than at 1 April. It is expected that significant changes are likely to be introduced to implement the Access SCR if the changes are to commence from April 2024.

The DCUSA could be amended to reflect this but additional flexibility would be provided if Ofgem were to issue the appropriate directions instead. If changes are to be made at times other than 1 April, this would require Ofgem to consent or issue a direction.

## Pros and Cons of Options for 2023/24 Price Setting

Option	Pros	Cons
A Retain 15 months' notice with price control true-up	<ul style="list-style-type: none"> <li>No change from current arrangements</li> <li>Provides more short-term DUoS price stability for suppliers</li> <li>No need for indicative and final charge publications</li> </ul>	<ul style="list-style-type: none"> <li>Reduce benefits of Access SCR changes</li> <li>Inconsistent with other network charges</li> <li>Greater price volatility later in RIIO-ED2, in particular if lagged incentive/pass-through is removed (i.e. the 'live' model approach)</li> <li>Increases financeability risk to DNOs</li> </ul>
B Three months' notice, enduring	<ul style="list-style-type: none"> <li>Facilitates benefits from Access SCR</li> <li>More consistent with other network use of system charges</li> <li>No need for indicative and final charge publications</li> </ul>	<ul style="list-style-type: none"> <li>Reduces notice period to suppliers</li> <li>Some price volatility later in RIIO-ED2</li> <li>Retains financeability risk to DNOs where differences between final and draft determinations</li> </ul>
C 40 days' final notice for 2023/24, three months' thereafter	<ul style="list-style-type: none"> <li>Facilitates benefits from Access SCR</li> <li>Consistent with other network use of system charges</li> <li>Mitigates price volatility later in RIIO-ED2 (driven by early periods)</li> <li>Removes financeability risk to DNOs where differences between final and draft determinations<sup>12</sup></li> </ul>	<ul style="list-style-type: none"> <li>Reduces notice periods to suppliers</li> <li>Requires the publication of indicative and final charges</li> </ul>
D Shorter notice for 2023/24 and 2024/25, 15 months' thereafter	<ul style="list-style-type: none"> <li>Supportive stakeholder engagement</li> <li>No change from current arrangements over medium term</li> <li>Mitigates price volatility later in RIIO-ED2 (driven by early periods)</li> <li>Removes financeability risk to DNOs where differences between final and draft determinations</li> </ul>	<ul style="list-style-type: none"> <li>Reduces notice period to suppliers for a limited period</li> <li>Reduce benefits of Access SCR changes</li> <li>Inconsistent with other network use of system charges</li> </ul>
E Three months' notice for 2023/24 only, 15 months' thereafter	<ul style="list-style-type: none"> <li>Supportive stakeholder engagement</li> <li>No change from current arrangements over medium term</li> <li>Mitigates price volatility later in RIIO-ED2 (driven by early periods)</li> </ul>	<ul style="list-style-type: none"> <li>Reduces notice period to suppliers for a limited period</li> <li>Reduce benefits of Access SCR changes</li> <li>Inconsistent with other network use of system charges</li> <li>Variance between final and draft determinations will create volatility, as will the impact of a successful CMA appeal</li> </ul>

<sup>12</sup> May be some risk if successful DNO CMA Appeal.

Option	Pros	Cons
F  Mid-year price changes	<ul style="list-style-type: none"> <li>Allows in year corrections to DNO revenues following final conclusion of RIIO-ED2</li> </ul>	<ul style="list-style-type: none"> <li>Adds considerable uncertainty to suppliers in charging year</li> <li>Additional costs to all industry parties in processing a mid-year tariff change</li> </ul>

## Recommendation

In evaluating the various options and considering the impacts on stakeholders, DNOs believe that Option D is the most appropriate approach i.e. move to a shorter notice period for the first two years of RIIO-ED2.

The proposed RIIO-ED2 timetable is tight if the Final Determination is to be included in tariffs published by 31 December 2022. If Ofgem guarantee that the Final Determination would be published by the first week of December 2022 (better still late November), then removing the indicative charges would be acceptable such that three months' notice of final charges would be provided only. It is recognised that this is difficult and hence, on balance, indicative and final charges for 2023/24 is the preferred approach.

We propose to implement indicative and final tariffs for 2023/24 only, to minimise volatility if there are differences between the Draft Determination and Final Determination. This could be subject to a materiality threshold.

A three-month notice period in 2024/25 protects against a successful CMA appeal, which would otherwise result in volatility in charges. Note that, if there are no changes, we intend on providing as much notice as possible, but this will need to be determined nearer the time.

Stakeholders have been receptive to a shorter notice period in the short-term, which was discussed at the February 2021 Distribution Charging Methodology Development Group (DCMDG). However, we believe that the enduring removal of the 15 months' notice period needs to be weighed up against the benefits sought by the Access SCR, such that the notice period does not constrain the options for reform. We expect that this will be determined by the Authority when it makes its decisions on the Access SCR and considered against the periods of notice provided by other networks for use of system charges.

Whilst it is possible to implement this approach without making any changes to the Licence or the DCUSA – instead relying on the Authority providing consent that the periods of notice set out in both the Licence and the DCUSA need not apply to the relevant years (i.e. 2023/24 and 2024/25), we believe it is in the best interests of Ofgem, DNOs and stakeholders, to raise a DCUSA change to formally implement the proposals. This will mitigate against a risk of uncertainty whilst providing greater transparency and opportunity for stakeholders, primarily suppliers, to input into the development and implementation of the changes. However, subject to agreement with Ofgem on the recommended approach, please note that we do not intend on diverging from the proposal outlined in this paper without significant justification to do so.

## Next Steps

DNOs consider that based on the RIIO-ED2 timetable that it will only be possible to publish indicative charges for April 2023 at 3 months' notice and then finalise those charges at 40 days' notice. This will necessitate DNOs progressing with industry change proposals in a timely and consultative manner so that we can remain

compliant with our DCUSA obligations. Should Ofgem prefer an alternative approach please notify us by 31 March at which time DNOs will raise a DCUSA change to modify the notice periods for DUoS tariff changes as set out above.



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