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10 January 2025

Dear Tim,

Confirmation of excess surplus residual and request for a derogation.

I am writing to update you on our 2026/27 charging figures following our letter of 12 December 2024 requesting a direction to delay publication of those charges, and also to confirm that we wish to request a further derogation in line with your guidance on Managing the effects of surplus residual charges. Thank you for providing the direction in response to that 12 December request.

We have now finalised our proposed 2026/27 charging figures and have confirmed excessive surplus residual charges occur in our tariffs. I am therefore requesting a derogation against the affected Charging Methodology, the Common Distribution Charging Methodology (CDCM), and have provided an impact assessment of the applied intervention option ('Option 1A') as set out in your guidance document. Our impact assessment setting out the effect of applying this remedy is included in spreadsheet format accompanying this letter.

Impact Assessment

Due to the excess surplus residual our 2026/27 tariffs produced under the CDCM before the remedy includes error values. It is our view that this makes this set of tariffs unsuitable to put into effect. The tariffs with the remedy applied as set out in your guidance remove all errors but the high surplus revenue still has an impact on the proposed tariffs. Some customers have zero unit rates and a zero fixed charge. Although a new occurrence for tariffs in our area, this is as expected under the guidance which states the approach to the remedy should "only apply insofar as is necessary to prevent there being any residual surplus left unaccounted for by the existing means described in the DCUSA". To achieve this, we applied a uniform 77.6% scaler multiplier to each network level of the Distribution Reinforcement Model. This results in a remaining surplus revenue which is sufficient to materially lower unit rates and fixed charges across several tariffs classes. We believe this is an outcome which is consistent with the overall aims and approach of the charging methodologies, and is fully consistent with the guidance.

If you are in agreement with this view, and are able to provide the necessary derogation, we expect to be able to publish our 2026/27 charges by the end of January 2025. Please provide the required derogation by 24 January 2025 to enable us to meet this deadline.

Thank you for giving this letter and our request your consideration. Please do not hesitate to contact me in the event of any queries.

Yours sincerely,

Paul Auckland

Paul Auckland
Head of Economic Regulation