



Making a positive difference  
for energy consumers

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By email Simon Yeo

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Date: 19 December 2025

Dear Company Secretary,

**Direction issued to National Grid Electricity Distribution (NGED) to derogate from the Distribution Use of System (DUoS) charge setting notice period<sup>1</sup>, issued under Section 2A Clause 19.1B of the Distribution Connection and Use of System Agreement (DCUSA)<sup>2</sup>.**

This letter contains a Direction to NGED to derogate from the DUoS 15-month charge setting notice period so that it may publish its final DUoS charges for 2027/28 for National Grid Electricity Distribution (East Midlands) Plc (EMID) and National Grid Electricity Distribution (West Midlands) Plc (WMID) after 31 December 2025. The period of notice by which the distribution network operator (DNO) must publish its charges is reduced to forty days, however we expect the DNO to publish those charges as soon as reasonably practicable but no later than 27 February 2026.

We consider it is in the interests of its customers overall, and in particular its Extra High Voltage customers to delay publication of final charges to allow it to produce a complete set of charges for all customers and mitigate what would otherwise have been an exceptional

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<sup>1</sup> Read [Section 2A Clause 19.1A of the DCUSA](#)

<sup>2</sup> Read [Section 2A Clause 19.1B of the DCUSA](#)

level of volatility of fixed charges for some EHV customers. The Direction is attached as an Annex to this letter.

## 1. Background

DNOs recover their allowed revenue from customers through DUoS charges. The methodologies for calculating these charges are the EHV Distribution Charging Methodology (EDCM) for the large, industrial customers connected at the highest voltages, and the Common Distribution Charging Methodology (CDCM) for the remaining customers. The CDCM and EDCM are detailed in the DCUSA document.

In the 2023 charge-setting period, we were made aware of circumstances in which following the EDCM would result in a negative value 'surplus residual'.<sup>3</sup> In some cases, this would result in a fixed daily credit being paid to certain sites. We do not consider that a fixed daily credit for Final Demand Sites is cost-reflective nor conducive to competition in the generation and supply of electricity.

From the point of the issues within the charging methodologies becoming known to us, we have sought to identify a robust and practical solution.

In response to a surplus residual arising in the EDCM of two DNOs in the 2023 charge-setting period, for 2025/26 charges, we granted a direction to derogate to the affected DNOs to charge outside of the EDCM.<sup>4</sup> We described these issues in greater detail in two explanatory notes<sup>5</sup> published alongside our presentation to the March 2024 Charging Futures Forum.

In July 2024, we published a call for input<sup>6</sup> to the sector, which detailed and sought feedback on our assessment of proposed approaches to manage the effects of surplus residual charges in both the EDCM and CDCM. We subsequently published our guidance for managing the effects of surplus residual charges<sup>7</sup> in November 2024, which outlined the process by which DNOs should submit requests for direction to derogate from the DCUSA 15-month notice period and relevant charging methodologies.

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<sup>3</sup> Surplus residual is also understood as a 'negative residual'. This guidance document uses the term "surplus residual" for consistency with the DCUSA.

<sup>4</sup> Read directions to derogate under SLC 13B Part E of the Electricity Distribution Licence relating to the EDCM for [National Grid Electricity Distribution](#) and [Scottish and Southern Electricity Networks](#)

<sup>5</sup> Read the [explanatory note on the issue relating to the EDCM](#) and [the explanatory note on the issue relating to the CDCM](#) on the NESO website

<sup>6</sup> Read the [call for input on managing the effects of surplus residual charges](#)

<sup>7</sup> Read [our guidance for managing the effects of surplus residual charges](#)

In winter 2024/25 we issued directions to three DNOs to derogate from the notice periods and charging methodologies in accordance with our published guidance, relating to 2026/27 charges.<sup>8</sup>

In October 2025, we approved DCUSA code modification proposal DCP450, which introduces a new step in the charging methodology that allows DNOs to uniformly reduce an input when the CDCM surplus residual adjustment process fails.<sup>9</sup> This ensures that CDCM tariffs can be produced without requiring derogations from licence conditions. No such proposal has so far been raised to codify the approach for dealing with surplus residuals in the EDCM.

## **2. NGED's issue and requested direction to derogate**

NGED has reviewed its available indicative charging figures and assessed the likelihood of an excessive residual surplus occurring as a result of applying the EDCM to its licence areas. In doing so, it discovered that the EDCM model was unable to produce a complete set of tariffs for its EMID licensee.

In the absence of the approach for dealing with a EDCM surplus residual being codified in the DCUSA, NGED has followed the process in our published guidance from 2024. In anticipation of the inability to produce a full set of tariffs (EMID), along with a potential occurrence of an excessive surplus residual arising within the EDCM (WMID), NGED wrote to us on 16 December 2025 to request a direction to derogate from the 15-month DUoS charge setting notice period, under Section 2A Clause 19.1B of the DCUSA.

As the issue of NGED being unable to produce a set of EDCM tariffs for EMID is different than that foreseen in our Guidance, NGED is investigating alternative interventions that will produce tariffs while maintaining stability. Consequently, NGED will require longer to investigate and propose solutions to the issue. Ultimately, this would involve NGED submitting a request for direction to derogate from the EDCM, by applying the appropriate intervention to enable the model to produce a full set of tariffs for EMID. NGED would also require a derogation from the EDCM if the occurrence of an excessive negative residual for WMID be confirmed.

Owing to interactions between the EDCM and CDCM, NGED will be unable to publish final CDCM tariffs until it has resolved the EDCM issue.

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<sup>8</sup> The directions can be found here: [Managing the effects of surplus residual charges: derogation requests and directions | Ofgem](#)

<sup>9</sup> Read [DCP450 Distribution Connection and Use of System Agreement \(DCUSA\) changes | Ofgem](#)

### **3. Our assessment**

We have considered NGED's proposal to delay publishing final charges for EMID and WMID against the process set out in our guidance for managing the effects of surplus residual charges, which has been developed in accordance with our principal objective and wider statutory duties.

We regard NGED's request to be consistent with the principles of our guidance document. By receiving a direction to derogate from the 15-month notice period, NGED will have sufficient time to confirm the issues with EDCM tariffs, apply the relevant intervention option and produce an impact assessment. It will then submit a request for direction to derogate against the EDCM to us and subsequently publish final charges following our decision.

In light of the different issues with the EDCM model identified by NGED (notably a failure to produce tariffs in EMID), we consider it appropriate to extend the timetable expected in the Guidance by up to four weeks. This will allow NGED to fully explore appropriate interventions to allow tariffs to be produced, while also addressing any excessive surplus residual that may arise. NGED has explained the options in the Guidance will not be sufficient for its circumstances as they do not address failure to produce EDCM tariffs.

Following this approach will allow NGED to manage the issues it is facing with the EDCM, including those associated with surplus residual charges. It will avoid the EDCM from failing to produce a complete set of charges for some network users and avoid a fixed daily credit being paid to some sites. We do not consider that compliance with the charging methodology should result in the failure to produce a set of final tariffs. In addition, we do not consider that a fixed daily credit for Final Demand Sites is cost-reflective nor conducive to competition in the generation and supply of electricity.

We therefore consider that a delay to publication of charges, that will enable a potential subsequent request to derogate from the charging methodologies, would better facilitate the achievement of our principal objective and wider statutory duties. The derogation covers both the CDCM and EDCM owing to the interactions between the two.

#### **4. Impact on licensed distribution network operators (LDNO)<sup>10</sup> operating in EMID and WMID distribution licence areas**

Under the DCUSA, LDNOs are required to provide 14 months' notice of their charges. This is one month after the DNOs publish their own tariffs. Any directions to DNOs to derogate from the 15-month notice period would therefore have implications for LDNOs operating in those DNO areas.

As with last year, we plan to issue a direction to LDNOs to derogate from their own notice periods, once we have confirmation of which DNOs are affected by an excessive surplus residual.<sup>11</sup>

#### **5. Decision**

For reasons set out above we have decided to grant NGED a direction to derogate from the 15-month DUoS charge setting notice period as set out in the Annex below. The Direction issued under Section 2A Clause 19.1B of the DCUSA is attached as an Annex to this letter.

In the event that NGED's ordinary calculation of charges does not result in a failure to produce tariffs or an excessive surplus residual being produced, we expect it to publish tariffs by 31 December 2025.

This letter constitutes notice under 49A of the Electricity Act 1989.

If you have any queries or comments in relation to the issues raised in this letter, please contact us by email at [duos@ofgem.gov.uk](mailto:duos@ofgem.gov.uk)

Yours faithfully,

**Andrew Malley**  
**Head of Distribution and Residual Charging**

Signed on behalf of the Authority and authorised for that purpose

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<sup>10</sup> LDNO can either be an independent distribution network operator (IDNO) or a DNO operating outside of its own region.

<sup>11</sup> LDNO notice period direction from January 2025: [LDNOs Direction to derogate DCUSA Notice Period.pdf](#)

# Annex

## **Direction issued to National Grid Electricity Distribution (East Midlands) Plc and National Grid Electricity Distribution (West Midlands) Plc to derogate from the Distribution Use of System (DUoS) charge setting notice period, issued under Section 2A Clause 19.1B of the Distribution Connection and Use of System Agreement (DCUSA)**

1. National Grid Electricity Distribution (East Midlands) Plc and National Grid Electricity Distribution (West Midlands) Plc, to whom this Direction is addressed (a "Licensee") holds a licence granted, or treated as granted, pursuant to section 6(1)(c) of the Electricity Act 1989 (the "Distribution Licence").
2. SLC 20.3 of the Distribution Licence requires each Licensee to comply with (among other codes) the Distribution Connection and Use of System Agreement ("DCUSA"). Clause 19.1A of the DCUSA requires each Licensee to provide notice of their charges 15 months in advance of the relevant charging year. Clause 19.1B permits each Licensee to not have to comply with the notice period set out in Clause 19.1A, where the Authority issues a direction to that effect. In such a circumstance, the notice period will be forty days.

### **Now therefore:**

The Authority hereby directs:

Pursuant to Section 2A Clause 19.1B of the DCUSA, that the periods of notice described in Clause 19.1A shall not apply to the Licensee and that the notice period shall instead be forty days for 2027/28 tariffs, however we expect the DNO to publish those charges as soon as reasonably practicable but no later than 27 February 2026.

This Direction shall have effect from the date stated below.

Dated 19 December 2025

**Andrew Malley**

**Head of Distribution and Residual Charging**

Signed on behalf of the Authority and authorised for that purpose