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Dear Tim,

Request for direction in accordance with SLC 13B Part E of the Electricity Distribution Licence

Summary of request

In relation to both of SSEN's distribution licences, Scottish Hydro Electric Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD), we hereby request a direction from Ofgem to charge outside of the Extra-High Voltage Distribution Charging Methodology (EDCM) for 2027-28 Distribution Use of System (DUoS) charges.

Reason for request

As indicated in our notice period request letter dated 10 December 2025 and subsequently confirmed to Ofgem 24 December 2025, excessive residual surplus¹ occurs in both SEPD and SHEPD EDCM tariffs due to take effect from 1 April 2027. In line with the Ofgem document titled 'Guidance for managing the effects of surplus residual charges' published in November 2024, we have applied the relevant intervention option to the EDCM charging methodology, which for both licence areas is Option 3 - carry over locational components and network use factors from previous years.

What led to the residual surplus (principal cause)

SSEN apply the Forward Cost Pricing (FCP) variant of the EDCM charging methodology as prescribed in Schedule 17 of the Distribution Connection and Use of System Agreement (DCUSA). The FCP methodology is based on allocating costs to EHV network users based on the projected load growth and the future network investments (aggregated up into network branches) that we expect to be triggered in their local region of the network. This is done according to the results of a power flow analysis of the network.

DCUSA Schedule 17 (paragraph 5.2) requires that the load data used in the power flow analysis is based on network demand data from the DNO Party's Long Term Development Statement (LTDS), which includes a five-year demand forecast from the previous financial year. A ten-year forecast, from the price setting period, is derived from the Distribution Future Energy Scenarios (DFES) 'Holistic Transition' scenario to cover the full period of FCP analysis.

¹ Residual surplus is also understood as a 'negative residual' per the Ofgem guidance document.

This scenario captures exponential load growth projections that reflect the electrification of our future energy system, including significant growth in the expected uptake of Electric Vehicles (EVs) and Heat Pumps (HPs).

The forward-looking component of the charge is designed to signal the costs to which a network user is contributing. Under a high growth/high investment scenario, these signals are increasingly strong (by design), meaning that a large amount of 'future cost' is being signalled in the forward-looking component of the charge.

Surplus Residual Charges have occurred in the 2027-28 EDCM tariff calculations as the 'forward-looking' component of the charge (based on our ten-year ahead demand projections and network development plan) overshoots the target revenue for the EDCM (based on 2027-28 Allowed Revenues).

The EDCM FCP model was implemented over a decade ago against a comparatively steady-state energy system background. We do not believe the methodology envisaged the levels of renewable energy investment and load growth on which our investment plans are based, and which will be critical to the delivery of a net zero carbon economy. Consequently, the EDCM methodology (both FCP and LRIC variants) requires a fundamental review to ensure it is fit for the future.

Tariffs affected (relative to the status quo)

The EHV tariffs for 2027-28 prior to intervention indicate that final demand customers would receive large credits via the 'residual' component of the charge, despite the model also indicating that load growth is the main driver of network cost. Without intervention, the magnitude of the year-on-year change in overall charges based on following the EDCM methodology as prescribed would involve a six figure swing for some customers.

How the intervention option is sufficient to correct for the issue in those circumstances

For both SEPD and SHEPD, EDCM Option 3 was identified as the most appropriate intervention as the primary driver of the excessive residual surplus in 2027-28 is an increase in forward-looking charges. This is also consistent with the approach applied to 2025-26 and 2026-27 tariffs, noting we also had to apply EDCM Option 1 (reapportion negative fixed charges for final demand consumers within a residual band to the capacity charge for the same group of consumers) to SHEPD 2026-27 calculations.

Applying EDCM intervention Option 3 will ensure charge stability for customers. Given the disruptive commercial ramifications that such drastic year-on-year changes could have for our EHV customers (and the counter-intuitive behaviours this may incentivise), we do not think it would be in their interests to publish tariffs based on a methodology that is not producing coherent results, under a load-growth outlook for which it was not designed.

Impact assessment

Indicative 2027-28 tariffs for SEPD and SHEPD (post implementation of the EDCM intervention option and iterative process) have been provided alongside this Direction request. These are yet to be assured, hence they have been marked as Draft, but we do not expect any material changes to the proposed tariffs.

Enduring Solution

SSEN has written to Ofgem directly on three occasions since 2023 and most recently in November 2025 detailing our concerns with the DUoS models. The workarounds are not sustainable in the longer term, and we urge Ofgem to prioritise a fundamental review with our continued support. The workaround applied has been deemed necessary to output acceptable results, however, in having to apply this for the third year in a row we are highly concerned that DUoS tariffs are becoming increasingly detached from robust economic principles that informed the design of the

tariff models (and principles of good charging practice more broadly). This requires clear regulatory choices to be made about how the costs of the network should be allocated based on a first principles assessment.

Necessary Direction

We request a direction under SLC 13B Part E of the Electricity Distribution Licence to relieve SEPD and SHEPD of the necessary obligations, to enable EDCM Distribution Use of System charges for regulatory year 2027-28 to be set in accordance with the information outlined in this letter, and in alignment with the guidance provided by Ofgem. This direction should also enable any new EDCM connections between the publication of charges and the 2027-28 charging year to have their charges set on an equivalent basis.

Please do not hesitate to get in touch if you require any further detail.

Yours sincerely

Emma Clark
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