



Making a positive difference
for energy consumers

Company Secretary
Scottish and Southern Electricity Networks

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By email Emma Clark

Email: duos@ofgem.gov.uk

Date: 19 January 2026

Dear Company Secretary,

Direction issued to Scottish Hydro Electric Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD) to derogate from the Distribution Use of System (DUoS) Extra High Voltage Distribution Charging Methodology (EDCM), issued under Standard Licence Condition (SLC) 13B Part E of the Electricity Distribution Licence¹

This letter contains a Direction to Scottish and Southern Electricity Network's (SSEN) Electricity Distribution Licence areas SHEPD and SEPD (the licensees) to derogate from the EDCM for 2027/28 charges, so that it can produce DUoS charges with no fixed credits. The direction allows SSEN to amend the charging methodology for the licensees. The Direction allows SSEN to amend the EDCM by carrying over locational components and network use factors from previous years.

We consider it is in the interests of its customers overall to produce charges for customers with no fixed credits. The Direction is attached as an Annex to this letter.

¹ Read [SLC 13 of the Electricity Distribution Licence](#)

1. Background

Distribution network operators (DNOs) recover their allowed revenue from customers through DUoS charges. The methodologies for calculating these charges are the extra high voltage 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 Distribution Connections and Use of Systems Agreement (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'.² 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.³ We described these issues in greater detail in two explanatory notes⁴ published alongside our presentation to the March 2024 Charging Futures Forum.

In July 2024, we published a Call for Input⁵ 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 charges⁶ 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.

² Surplus residual is also understood as a 'negative residual'. This guidance document uses the term "surplus residual" for consistency with the DCUSA.

³ 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](#)

⁴ 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

⁵ Read the [Call for Input on managing the effects of surplus residual charges](#)

⁶ 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.⁷

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.⁸ This ensures that CDCM tariffs can be produced without requiring derogations from licence conditions. No similar proposal has so far been raised to codify the approach for dealing with surplus residuals in the EDCM.

In December 2025, we directed two DNOs to derogate from the 15-month DUoS charge setting notice period.⁹ This allowed them time to confirm an excessive residual surplus, apply intervention options, conduct an impact assessment, and submit a derogation request from the charging methodology to Ofgem, if required. The notice period derogations covered both the CDCM and EDCM owing to the interactions between the two methodologies.

2. SSEN's issue and requested direction to derogate

SSEN has finalised its proposed 2027/28 charging figures for the licensees and has confirmed the occurrence of excessive surplus residual charges in its tariffs as a result of applying the EDCM to its licence areas. In the absence of a means for dealing with a EDCM surplus residual being codified in the DCUSA, SSEN has followed our published guidance from 2024.

In keeping with our guidance and in response to the occurrence of an excessive surplus residual arising within the EDCM, SSEN wrote to us on 9 January 2026 to request a direction to derogate from its charging methodology.

SSEN has proposed a derogation to the EDCM to allow it to carry over locational components and network use factors from previous years.

3. Our assessment

We have considered SSEN's proposal for the licensees to derogate from the EDCM for the licensees, against the process set out in our guidance for managing the effects of surplus

⁷ The directions can be found here: [Managing the effects of surplus residual charges: derogation requests and directions | Ofgem](#)

⁸ [DCP450 Distribution Connection and Use of System Agreement \(DCUSA\) changes | Ofgem](#)

⁹ View [the requests to derogate from the DCUSA 15-month notice period and Ofgem decisions](#).

residual charges, which has been developed in accordance with the DCUSA charging objectives¹⁰, our principal objective and wider statutory duties.

Competition

Negative fixed charges for demand could lead to distortive incentives for customers to hold or increase agreed capacity where it is not needed, which will not lead to efficient system use and could be harmful for competition if it prevents the efficient allocation of capacity to other users. By addressing this issue, the intervention better facilitates this objective. Given the principal cause of the issue and its scale, SSEN has chosen the appropriate approach to addressing negative fixed charges.

Cost-reflectivity

The intervention relies on some historical data, which reduces cost reflectivity of the model inputs. However, it does remove negative fixed charges, which we have stated are not cost reflective. While not performing strongly against this objective, the intervention is the most appropriate option given the scale of the EDCM negative residual.

DNO business development

The status quo would result in charges on the basis of models that were not designed for inputs that result in negative fixed charges. The intervention relies on some historical inputs which do not reflect licensees DNO business development. However, it is the most appropriate intervention in the circumstances.

Efficiency

As described in our rationale for derogation against the DCUSA charging notice period¹¹, we consider that the changes to DNO (licensees) and supplier processes are an additional administrative step required for a suitable assessment of the circumstances by the licensees, the proposal of a path to resolution of the issue, and our assessment of that proposal. We consider that this process has been followed effectively, mitigating the aforementioned risk to the normal operation of licensees and supplier business operations.

Principal Objective & Statutory Duties

We have assessed the proposed intervention in line with our Principal Objective and statutory duties. The status quo is not in the interests of current and future consumers as it could allow a potential windfall gain for some customers at the expense of others.

¹⁰ The [DCUSA Charging Objectives are in clause 3.2 of DCUSA](#) and are set out in [Condition 22A of the Distribution Licences](#).

¹¹ Read [Ofgem direction to SSEN to derogate from the DCUSA notice period](#)

We also believe that this intervention promotes competition in a way that protects consumers' interests. It does so by mitigating against potential distortions to competition related to negative fixed charges for EDCM customers distorting incentives to hold or increase capacity.

We recognise that the intervention changes tariffs for more than just the directly affected network users, but consider that such consequences are proportionate and reasonable in light of the potential disruption to the normal functioning of the DNO (licensees), suppliers, and network users.

4. Potential for an enduring solution

We note that this is the third time in as many years that we have issued a methodology derogation for the EDCM for the SSEN licensees. We acknowledge the concerns raised by SSEN that the current approach is not sustainable in the longer term. While a more fundamental review of the EDCM through the DUoS Significant Code Review¹² (SCR) may provide a longer-term solution, it is not practical for the SCR to address this issue ahead of the charge setting deadline for 2028/29 charges in less than 12 months' time. This is particularly so given the dependencies of the SCR on other interrelated, ongoing reform, such as that for transmission charging under reformed national pricing.¹³

Therefore, as we noted in our 2024 Guidance document, we would like to work with industry on any modification proposal that seeks to address this issue on an enduring basis. We would expect any modification proposal for an enduring solution would consider and seek to address the root cause of the issue. Nonetheless, we consider this current derogation activity is appropriate in the circumstances of addressing this issue in a consistent and timely manner for 2027/28 tariff setting.

5. Decision

For the reasons set out above we have decided to grant SSEN's licence areas SHEPD and SEPD a direction to derogate from the EDCM for the 2027/28 charging year. The Direction issued under SLC 13B Part E of the Electricity Distribution Licence is attached as an Annex to this letter.

The Direction allows SSEN's licence areas to amend the EDCM by carrying over locational components and network use factors from previous years.

¹² [Distribution Use of System Charges: Significant Code Review update | Ofgem](#)

¹³ [Reforming network charging signals to align with the future design of Great Britain's electricity system | Ofgem](#)

Any new EDCM connections between the publication of charges and the 2027/28 charging year should also have their charges set on an equivalent basis. For the avoidance of doubt, and save as set out in this Direction, in all other respects the charges should be calculated in accordance with the EDCM.

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.

Yours faithfully,

Andrew Malley

Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose

Annex

Direction issued to Scottish Hydro Electric Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD) to derogate from the DUoS EDCM issued under SLC 13B Part E of the Electricity Distribution Licence

1. SHEPD and SEPD to whom this Direction is addressed (the "Licensees") holds a licence granted, or treated as granted, pursuant to section 6(1)(c) of the Electricity Act 1989 (the "Distribution Licence").
2. SLC 13B Part E of the Distribution Licence states the Authority may (after consulting the licensee and, where appropriate, any other Authorised Electricity Operator likely to be materially affected) give a direction ('a derogation') to the licensee that relieves it of its obligations under Part A of this condition in respect of such elements of the EDCM, to such extent, for such period of time, and subject to such conditions as may be specified in the direction.

Now therefore:

Pursuant to SLC 13B Part E of the Distribution Licence, for 2027/28 charges the Licensee may carry over locational components and network use factors from previous years for the EDCM for both SEPD and SHEPD.

This Direction shall have effect from the date stated below.

Dated 19 January 2026

Andrew Malley

Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose