

Distribution & Residual Charging Team
Ofgem
10 South Colonnade
London
E14 4PU

Sent via email to: duos@ofgem.gov.uk.

20th August 2026

Dear Distribution & Residual Charging Team

RE: Response to Ofgem Consultation: Notice Period Options for Network Charges for the Start of ED3

We welcome the opportunity to respond to Ofgem's consultation on notice period options for network charges at the start of ED3.

BUUK Infrastructure own and operate electricity distribution networks through licensees, the Electricity Network Company Ltd (ENC) and Independent Power Networks Limited (IPNL). These businesses operate as Independent Distribution Network Operators (IDNO) and therefore, given the consequential impacts on IDNO charging notice periods, are directly impacted by any changes to DNO charge publication process. We are pleased to be able to provide our views on the options presented in the consultation.

We support a derogation from the current charging notice period arrangements for the transition into ED3. In our view, the beginning of a new price control period presents challenges that distinguish it from charging arrangements which happen within a price control. The consultation acknowledges the increased uncertainty associated with forecasting allowed revenues, incentive mechanisms and other key regulatory parameters before Ofgem's ED3 Final Determinations have been published.

Based on our experience as an IDNO, the most significant concern during a price control transition is the risk of charges being based on assumptions that subsequently differ from the final regulatory settlement. Where this occurs, sizeable corrections may be required in future years, resulting in volatility that is ultimately experienced by network users. This was particularly noticeable for RIIO-ED2 where periods of inflation and changes to the correction factor meant that IDNOs were exposed to significant year on year changes in charges.

While revenue adjustment mechanisms ensured eventual recovery of allowed revenues for DNOs, the practical impact was that tariff corrections were carried forward into future years. Such volatility can create challenges for budgeting, forecasting, customer communications and investment decision making.

For IDNOs these issues manifest in swings in revenue as the vast majority of IDNO charges are capped to the DNO equivalent tariff. It is not always easy for IDNOs to be able to predict the timing and quantum of these swings in revenue and so IDNOs are subject to the swings in revenue.

- For Year 1 of ED3, we support Option 4, under which charges would be published following Final Determinations. We consider this option provides the greatest tariff accuracy, minimises the need for future corrections and should contribute to a more stable charging profile over the course of ED3.
- For Year 2 of ED3, we support the proposed reduction from 15 months to 14 months, enabling charges to reflect Final Determinations while representing only a modest deviation from current arrangements.

Overall, we believe that, during a price control transition, customers are better served by charges which reflect the most accurate regulatory information available rather than charges published earlier on the basis of assumptions that subsequently require material correction. We support the continued publication of the Cost Information Review Pack (CIRP) despite the notice period option chosen. As it gives an indicative view of the direction of movement of network costs.

We set out our responses to the consultation questions below. Please contact me if you have any queries or require further information.

Yours faithfully

Ed Grimsey
Regulatory Analyst

Annex 1 – Response to Consultation Questions**Q1. Are there any other notice period options that may be appropriate for Year 1 of ED3?**

We consider the options presented by Ofgem to be sufficiently comprehensive, as they cover the key stages of the allowed revenue process.

In our view, the key outcome should be to ensure that charges are informed by Ofgem's regulatory review rather than DNO business plan assumptions. Once Final Determinations are available, the uncertainty surrounding ED3 revenues is substantially reduced, allowing more accurate tariff setting and reducing the risk of significant corrections in subsequent years.

Q2. Under Option 1, is a letter of comfort required to address the risk of over- and under-recovery, as was done for ED2?

If Ofgem ultimately decides to retain Option 1, a letter of comfort would appear appropriate to provide reassurance regarding the treatment of forecast differences arising from the transition into ED3.

However, we do not consider that a letter of comfort addresses the fundamental issue identified in the consultation. The primary concern from our perspective is not the recovery of allowed revenues but the volatility in customer charges that can arise when tariffs are established ahead of Final Determinations and subsequently require correction. Consequently, our preference would be to address the root cause of the issue through a temporary reduction in the notice period rather than through additional mitigation measures associated with Option 1.

Q3. How long do DNOs need to prepare and publish charges after receiving the final inputs relevant for a given option?

As an IDNO, we are not best placed to comment on the operational timescales required by DNOs to produce and publish DUoS charges. We consider DNOs are better placed to provide this information.

Q4. How long do LDNOs need to prepare and publish charges after DNO charge publication where a notice period derogation is in place?

We consider that one month following DNO publication remains an appropriate timeframe for IDNOs. IDNOs require sufficient time to process DNO tariffs, undertake validation activities, update charging systems if required and complete governance processes before publishing charges.

Q5. Do you agree with Ofgem's initial assessment of the options for Year 1? Please provide evidence to support your views, including benefits and risks with each option.

We agree with Ofgem's assessment that shorter notice periods can improve tariff accuracy at the start of a new price control. However, we consider Option 4 to be preferable to Option 3 because it provides tariffs based on Final Determinations rather than Draft Determinations.

From an IDNO perspective, the most important consideration is ensuring that charges for the first year of ED3 are based on the most accurate and complete information available. The transition into a new price control is materially different from normal annual tariff setting. Revenue allowances, incentive arrangements, expenditure allowances, cost of capital assumptions and other key parameters remain uncertain until Final Determinations have been issued. ED2 Final Determinations differed materially from both business plans and Draft Determinations, demonstrating the scale of uncertainty that can exist during a price control reset.

Previous price control transitions demonstrated that setting tariffs before final regulatory certainty is available can result in significant corrections in future years. Whilst revenues are ultimately reconciled through regulatory mechanisms, customers experience these reconciliations through larger year-on-year movements in charges. This can create challenges for budgeting, customer forecasting, investment appraisal, commercial negotiations and long-term business planning. In our view, avoiding large corrective adjustments in subsequent years should be a key objective when considering arrangements for the start of ED3.

Benefits and risks of each solution:

The benefits of Option 1 are that it provides the earliest visibility of charges and therefore gives stakeholders the longest possible preparation period. However, the risks are charges would be based on business plan assumptions before Ofgem has completed its assessment, increasing the likelihood of material differences between forecast and final allowances. This could result in significant corrective adjustments in subsequent years and greater volatility in charges following the start of ED3.

The benefits of option 2 are it allows for slightly more up to date information than Option 1 and retains a relatively long notice period. The risks are it still relies on information prior to Draft and Final Determinations, meaning the risks identified for option 1 are still present.

The benefits of option 3 are it allows charges to reflect Draft Determinations which Improves tariff accuracy compared with Options 1 and 2 and has the potential to reduce later corrections. The risks of option 3 are material elements of the ED3 allowance would remain subject to change, so tariffs could still require significant adjustment once Final Determinations are published.

The benefits of Option 4 are that charges would be based on Final Determinations and the most accurate available revenue allowances, it minimises forecasting uncertainty associated with the transition into ED3. It reduces the likelihood of substantial corrective adjustments in future years, resulting in smoother year-on-year charges. The risk of option 4 is that it is the shortest notice period for market participants, but we believe this is outweighed by the reduction in volatility. We believe there is significant value in ensuring charges are based on the final regulatory settlement rather than earlier forecasts.

Q6. Do you agree with Ofgem's initial assessment of the options for Year 2?

Yes we support Ofgem's initial assessment that reducing the notice period from 15 months to 14 months for Year 2 is proportionate and appropriate. By the time Year 2 charges are being developed, the ED3 framework and revenue allowances will have been established through Final Determinations. A one-month reduction in notice period therefore provides an opportunity to improve tariff accuracy while having only a limited impact on industry.

The benefits of a 15-month notice period are that it maintains consistency with existing arrangements and provides stakeholders with the maximum amount of advance notice to support planning and preparation. However, charges would need to be developed using information available before Final Determinations are published, increasing the likelihood of differences between tariffs and final allowed revenues. This creates a greater risk of future corrective adjustments and associated charge volatility.

The benefits of a 14-month notice period are that it enables charges to be informed by Final Determinations, improving tariff accuracy and cost reflectivity. It also reduces the likelihood of over- or under-recovery adjustments in subsequent years, supporting a smoother and more stable transition into the ED3 charging framework. The principal drawback is the slightly shorter period available for stakeholder planning and preparation. However, this is offset by the benefits of basing charges on the final regulatory settlement and reducing the need for future corrections.

Given the modest nature of the reduction and the benefits associated with using Final Determination data, we agree with Ofgem's assessment that a 14-month notice period represents an appropriate balance.

Q7. What was the impact of year-on-year variability in charges at the start of ED2?

As an IDNO, our experience is that the year-on-year volatility observed during the early years of ED2 created challenges for financial planning, budgeting and customer engagement.

DNOs observed materially greater variability in allowed revenues during the first two years of ED2 than in subsequent years, the transition between price controls introduces additional uncertainty around funding allowances, incentive mechanisms and financial parameters.

The practical impacts of this volatility include increased complexity in annual budgeting and forecasting processes, reduced confidence in medium-term financial planning assumptions. Challenges when explaining material charge movements to customers and stakeholders, Difficulties in developing long-term business cases and investment assessments and greater uncertainty when assessing future revenues and network charging trends.

While the 15-month notice period provided earlier visibility of charges, in our view it did not prevent the consequences of the underlying forecasting uncertainty. Charges may have been known earlier, but subsequent corrections were still required once actual revenues and regulatory allowances became known. As a result, customers ultimately faced volatility regardless of the longer notice period.

Our experience therefore supports the principle that it is preferable to base tariffs on the most accurate information available, even where this requires a reduction in the charging notice period. We believe this approach is more likely to reduce future corrective adjustments and deliver greater stability in charges for customers over time.