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

Notice period options for network charges for the start of ED3

We oppose the proposal to reduce the current 15-month notice period for setting Distribution Use of System (DUoS) tariffs (the **ED3 Proposal**) because it is not in customers' interests. The ED3 Proposal would create commercial risk that would not otherwise exist. **A shortened notice period would create unnecessary costs for customers at the time when both domestic and non-domestic customers are already facing significant cost pressures.** The ED3 Proposal would reduce customer choice and decrease competition for fixed-price contracts, risks making the energy retail market further uninvestable and would weaken growth in the wider economy.

The Distribution Network Operators (DNOs) developed the ED3 Proposal, which is similar to two previous proposals that they also developed. Ofgem rejected those proposals¹. The underlying context of those proposals is the same as that of the ED3 Proposal. The reasons why Ofgem rejected the previous proposals also apply to the ED3 Proposal. **The detriment that Ofgem previously identified would now be even greater if the ED3 Proposal is approved.**

The DNOs have misdiagnosed year-on-year variability in DUoS tariffs as a problem. Instead, **suppliers require tariff predictability and certainty to effectively contract with customers.** Even if the variability is genuinely detrimental, the ED3 Proposal is a disproportionate solution and ignores the obvious attendant consequences that Ofgem previously assessed.

The current notice period requires DNOs to set 2028-29 DUoS tariffs in December 2026, before the RII0-ED3 price control is confirmed. This circumstance is not ideal, but it is not particularly problematic and does not require the notice period to be reduced. We propose:

- **2028-29 DUoS tariffs should be set based on the revenue forecasts in the Cost Information Tables and Review Packs.**
- **On an enduring basis, DNOs could be permitted to update tariffs if inflation variances materially affect revenues.**

¹ See [Distribution Connection and Use of System Agreement \(DCUSA\)- To Shorten the DUoS Pricing Notice Periods \(DCP437\)](#) and [Decision on DNOs request for directions to temporarily disapply the current DuoS charges notification periods.](#)

The options that Ofgem has considered are all variants of notice periods for tariff-setting; no other type of solution has been explored. Our recommended approaches are more proportionate, minimise regulatory intervention and do not erode the degree of predictability and certainty that the existing notice period provides. The approaches to setting DUoS tariffs can be quickly settled.

We also provide evidence of the likely negative impacts on the retail market.

2028-29 DUoS tariffs should be set based on the revenue forecasts in the Cost Information Tables and Review Packs:

By putting forward the ED3 Proposal, the DNOs have, again, clearly demonstrated that they fundamentally misunderstand the commercial realities of both the domestic and non-domestic electricity retail markets. The DNOs have, again, failed to appreciate that suppliers require tariff predictability and certainty and that year-on-year variability is an immaterial concern. Suppliers have already reinforced the primary need for tariff predictability and certainty to the DNOs in the DCP469 *Cross Code Standardisation of Charging Arrangement Notice Periods*² working group meetings. Suppliers are much better informed about actual issues in the retail market.

DNOs can set 2028-29 DUoS tariffs based on their revenue forecasts in the Cost Information Tables and Review Packs (CIRPs). The Distribution Connection and Use of System Agreement (DCUSA) legally obligates the DNOs to publish CIRPs. Further, paragraph 2.3 of Schedule 20 states:

“...The forecast of the CDCM inputs for the Review Period will be provided by DNO Parties based on their own perception of how the CDCM input data may change over the Review Period. The format of the CIRP will be common, but the actual forecast will be specific to each DNO Party to allow that DNO Party flexibility to express its own views and to provide a realistic forecast.”³

[Emphasis added.]

Given the existing legal obligation on the DNOs to produce realistic revenue forecasts, those forecasts can and should be used for tariff-setting. Any variances between the forecast revenues that are used to set 2028-29 DUoS tariffs and allowed revenues can be ‘profiled’ over the remaining four years of the price control. ‘Profiling’ is a revenue-neutral measure and ensures that the DNOs will receive their full revenue entitlements. Ofgem has ‘profiled’ revenues on several occasions, and as recently when the 2026-31 RIIO-3 transmission and gas distribution price controls were set. Networks companies are also familiar with revenue ‘profiling’. For example, UKPN proposed that its RIIO-ED2 revenues be profiled to delay revenue recovery. Ofgem accepted UKPN’s proposal⁴.

Network companies already set use-of-system tariffs based on their revenue forecasts (instead of based on revenues set by Ofgem), which means that our recommended approach is not novel. The DNOs’ capability to better produce realistic revenue forecasts has been enhanced by Ofgem

² See: [DCP-469-Change-Proposal-Form.pdf](#)

³ Distribution Connection and Use of System Agreement version 18.4. See: [Distribution Connection and Use of System Agreement](#).

⁴ RIIO-ED2 Final Determinations Finance Annex, paragraphs 10.257-271. See: [RIIO-ED2 Final Determinations Finance Annex](#)

publishing its working assumption for the weighted average cost of capital for the RIIO-ED3 price control⁵. There is sufficient time between now and December 2026 for Ofgem and the DNOs to agree any additional working assumptions if needed. A letter of comfort to address the risk of revenue over-and under-recovery may be helpful.

The period between now and December 2026 also provides the DNOs with opportunity to improve their revenue forecasts. Several DNOs have published CIRPs in which allowed revenues do not change over the three-year period from 2027-28 that straddles the RIIO-ED2 and RIIO-ED3 price controls. We analysed the data in the four CIRPs publications between May 2025 and May 2026, and make the following observations (see Appendix 1):

- In the May 2025 CIRPs, all 14 DNOs except NPGN and NPGY forecast flat closing regulatory asset values (RAVs) and base revenues net of pass-through revenue (which we refer to as **net base revenue**) across the last year of RIIO-ED2 and the first two years of RIIO-ED3.
- In the November 2025 CIRPs, all 14 DNOs except NPGN and NPGY forecast flat RAVs and net base revenues across the last year of RIIO-ED2 and the first year of RIIO-ED3. 10 of 14 DNOs (excluding NPGN, NPGY, SPD and SPM) forecast flat RAVs and net base revenues in the second year of RIIO-ED3 that are equal to the values for the last year of RIIO-ED2.
- In the December 2025-February 2026 CIRPs, 10 of 14 DNOs forecast flat RAVs and net base revenues across the last year of RIIO-ED2 and the first two years of RIIO-ED3. NPGN and NPGY continued to provide forecasts that vary over the three-year period, while SEPD and SHEPD did so for the first time since May 2025. SPD and SPM reverted to flat forecasts across the three-year period.
- In the May 2026 CIRPs, eight DNOs held closing RAVs and net base revenues flat across the last year of RIIO-ED2 and the first two years of RIIO-ED3. Only NPGN, NPGY, SPD, SPM, SEPD and SHEPD provided forecasts that vary over the three-year period.

The majority of DNOs have chosen to publish forecasts between May 2025 and May 2026 that are clearly not realistic – it is extremely unlikely that net base revenues will remain flat across the last year of RIIO-ED2 and the first two years of RIIO-ED3. These DNOs have chosen to publish information to the market that is misleading and that can cause distortions. Alternatively, **the notice period does not need to be reduced since most DNOs have published net base revenues that are flat across the last year of RIIO-ED2 and the first two years of RIIO-ED3.**

The DNOs may not have perfect foresight of the RIIO-ED3 settlement but the 'static' revenue forecasts are clearly not realistic. We strongly recommend that the DNOs take the opportunity to ensure that their revenue forecasts are realistic.

⁵ ED3 Sector Specific Methodology Decision - Finance Annex, Table 18. See: [ED3 Sector Specific Methodology Decision - Finance Annex](#)

On an enduring basis, DNOs could be permitted to update tariffs if inflation variances materially affect revenues:

DNOs identify swings in inflation as the primary source of historic year-on-year variability in allowed revenues (and tariffs) and appear to imply that this may re-occur in the RIIO-ED3 period⁶. It is not necessary to reduce the notice period for setting DUoS tariffs even if swings in inflation re-occur and tariff variability is genuinely detrimental.

We recommend that, on an enduring basis, the notice period remains unchanged but that DNOs be permitted to update tariffs with e.g. eight months' notice if swings in inflation materially affect allowed revenues. Our proposed approach would provide suppliers with an appropriate level of tariff predictability and certainty:

- tariffs would still be published with 15 months' notice, providing a degree of certainty; and
- allowing DNOs to update tariffs at a certain point in time if swings in inflation materially impact revenues offers suppliers a degree of predictability of potential changes.

Our recommended approach would require no more regulatory intervention than that associated with Ofgem's preferred option.

In addition to inflation, the DNOs have listed other factors that affect allowed revenues that they state are beyond their control or are difficult to forecast (e.g. incentive performance, cost of debt indexation, chargeable volumes)⁷. Reducing the notice period would further protect the DNOs from forecasting risk and, therefore, reduces the overall systematic risk that the DNOs would be exposed to. It would be necessary for Ofgem to reduce DNOs' remuneration to ensure that the balance of risk and reward is not further skewed in the DNOs' favour if the notice period is reduced.

The ED3 Proposal would also have a detrimental effect on the retail market:

We are concerned about Ofgem's inconsistent approach to the retail market, which is further evidenced by the fact that Ofgem is considering reducing the notice period for setting DUoS tariffs. A shortened notice period would create unnecessary costs for customers at the time when both domestic and non-domestic customers are already facing significant cost pressures, and when the Government is seeking to drive down the cost of living. A shortened notice period would create unnecessary costs for customers, which would increase the existing customer debt problem that Ofgem has signalled that it intends to resolve.

Ofgem has already identified that the consequences associated with shortening the notice period outweigh any potential benefits:

Ofgem's position on the notice period for DUoS tariff changes is confused. The DNOs presented a similar proposal in 2021, ahead of the start of the RIIO-ED2 price control⁸. The DNOs then referred to similar factors as they have now (such as increased revenue uncertainty, tariff volatility,

⁶ See page 5 of: [Sample title here](#).

⁷ See page 3 of: [Sample title here](#).

⁸ The DNOs requested a derogation from the 15-month notice period obligation.

etc.) to justify the ED3 Proposal. Ofgem rightly rejected the 2021 proposal, stating that the **issues associated with shortening the notice periods outweigh the benefits**⁹ and that:

- reducing the notice periods represents a transfer of risk from DNOs to suppliers and consumers; and
- DNOs are better placed to manage forecasting risks associated with RIIO-ED2 than suppliers and consumers¹⁰.

The context and the reasons why Ofgem rejected the DNOs' 2021 proposal are the same now and are just as valid. DNOs remain better placed to manage forecasting risks associated with RIIO-ED3 than suppliers and customers. The transfer of risk that Ofgem previously referred to would be greater now because of the expected step-change increase in allowed revenues in RIIO-ED3. **It is illogical that Ofgem rejected the DNOs' 2021 proposal because of risk transfer but is now considering accepting a similar proposal that would transfer even greater risk to suppliers.**

Reducing the notice period risks making the retail sector even further uninvestible:

The DNOs state that DUoS charges are only a small part of the average dual fuel domestic energy bill and that a derogation to waive the 15-month notice would likely have a minor impact (circa +/- 1%) on the small DUoS element of a dual fuel bill¹¹. This is correct in isolation. Again, the DNOs misunderstand the commercial realities of the retail market. The allowance for earnings before interest and tax (EBIT) in the default tariff cap is considerably smaller than the DUoS element of the average dual fuel bill. The estimated 1% impact due to the derogation would erase a significant portion of the EBIT allowance if customer contracts cannot be appropriately priced because of the reduced notice period.

Ofgem has not proposed an increase in the EBIT allowance to compensate suppliers for the additional risk even though it has recognised that reducing the notice period transfers risk for suppliers. EBIT erosion is not limited to contracts for domestic customers on the default tariff cap; it would also apply to contracts for domestic customers that are on other types of fixed price contracts.

The erosion of the EBIT allowance risks making the retail market even further uninvestable, which is an issue which Ofgem has already committed to addressing¹². **Reducing the notice period will conflict with any steps that Ofgem takes to improve investability in the retail market.**

The arrangements for setting transmission tariffs have already caused EBIT erosion and should not be replicated:

We emphasise that the industry has recently experienced EBIT erosion because of sudden substantial increases in use-of-system charges. The combination of the two-month notice period for TNUoS tariff changes and supplier loss of up to 12% of TNUoS revenue meant that suppliers

⁹ Decision on DNOs request for directions to temporarily disapply the current DuoS charges notification periods, page 3. See: [Decision on DNOs request to temporarily disapply the current DUoS charges notification periods | Ofgem](#)

¹⁰ Decision on DNOs request for directions to temporarily disapply the current DuoS charges notification periods, page 5. See: [Decision on DNOs request to temporarily disapply the current DUoS charges notification periods | Ofgem](#)

¹¹ See page 10 of: [Sample title here](#).

¹² Forward Work Programme 2026-27, paragraph 2.3. See: [Forward Work Programme – 2026 to 2027](#)

were unable to appropriately price in the substantial increases in TNUoS charges linked to the RIIO-3 price control¹³. Any reduction in the notice period for setting DUoS tariffs would have a similar effect. There is no justifiable reason why Ofgem should further erode retail EBIT and render the retail market even further uninvestable.

One of the options that the DNOs have proposed involves reducing the notice period to two months, to be the same as for TNUoS tariff changes. **It has already been demonstrated that the TNUoS tariff-setting arrangements are extremely sub-optimal** given that Ofgem 'profiled' RIIO-3 revenues to soften the sharp revenue increases. The TNUoS tariff-setting arrangements are not fit-for-purpose in an environment in which customers will be required to fund significantly higher levels of network investment. **The notice period for setting TNUoS tariffs should be increased to 15 months.**

Reducing the notice period would reduce choice and competition for fixed price contracts:

Ofgem's differing views on fixed price contracts are another example of contradictory positions within Ofgem. Our customers, particularly non-domestic customers, are increasingly seeking (longer) fixed price contracts. Ofgem highlights more customers opting for fixed tariffs as encouraging signs of recovery in the retail market¹⁴. However, in response its estimation that suppliers could lose up to 12% of revenue because of the recent sudden substantial increases in TNUoS charges, Ofgem expected that suppliers should offer contracts that they largely do not want:

"...we would have expected suppliers to consider pass-through clauses as a way of mitigating the risks associated with increases in RIIO-3 charges."¹⁵

It is likely that the ED3 Proposal will result in poor outcomes for customers. Suppliers will be forced to either offer pass-through contracts and/or include risk premia in fixed price contracts. These outcomes would be caused by Ofgem reducing the notice period for setting DUoS tariffs. By reducing the notice period, Ofgem would be setting regulatory arrangements that directly contradicts its first strategic priority, which is to shape a retail market that works for consumers¹⁶.

Summary:

In summary, Centrica strongly opposes any reduction in the 15-month notice period for DUoS tariffs. The proposal addresses an immaterial concern while transferring additional forecasting risk and cost from DNOs to suppliers and customers, reducing tariff certainty, weakening competition for fixed-price contracts and undermining retail market investability. DNOs are better placed to manage RIIO-ED3 forecasting risk and should set 2028–29 tariffs using realistic CIRP revenue forecasts, with any subsequent variances profiled across the price control. On an enduring basis, targeted tariff updates could be permitted where material inflation variances arise,

¹³ Ofgem estimated that suppliers could lose up to 12% of TNUoS revenue due to the National Energy System Operator and transmission operators greatly under-forecasting RIIO-3 allowed revenues. RIIO-3 Final Determinations – Impact Assessment, paragraph 5.78. See: [RIIO-3 Final Determinations – Impact Assessment](#)

¹⁴ Proposed Forward Work Programme for 2026 to 2027, page 4: See: [Forward Work Programme – 2026 to 2027](#).

¹⁵ RIIO-3 Final Determinations – Impact Assessment, paragraph 5.80. See: [RIIO-3 Final Determinations – Impact Assessment](#)

¹⁶ See: [Forward Work Programme – 2026 to 2027](#).

preserving predictability without imposing the significant adverse consequences of a generally shorter notice period.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

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Appendix 1: DNO forecast data in Cost Information Tables and Review Packs published between May 2025 and May 2026

Table 1: Closing regulatory asset values and base revenues in the May 2025 Cost Information Tables and Review Packs (£m, 2020-21 prices)

DNO	Line	2027-28	2028-29	2029-30
Electricity North West	Closing RAV	£2,689	£2,689	£2,689
	Base Revenue less pass-through revenue	£369	£369	£369
East Midlands	Closing RAV	£3,025	£3,025	£3,025
	Base Revenue less pass-through revenue	£372	£372	£372
West Midlands	Closing RAV	£2,963	£2,963	£2,963
	Base Revenue less pass-through revenue	£369	£369	£369
South Wales	Closing RAV	£1,577	£1,577	£1,577
	Base Revenue less pass-through revenue	£189	£189	£189
South West	Closing RAV	£2,449	£2,449	£2,449
	Base Revenue less pass-through revenue	£283	£283	£283
Northeast	Closing RAV	£1,810	£1,870	£1,969
	Base Revenue less pass-through revenue	£240	£241	£248
Yorkshire	Closing RAV	£2,472	£2,603	£2,762
	Base Revenue less pass-through revenue	£316	£327	£337
SEPD	Closing RAV	£3,467	£3,467	£3,467
	Base Revenue less pass-through revenue	£492	£496	£496
SHEPD	Closing RAV	£2,023	£2,023	£2,023
	Base Revenue less pass-through revenue	£256	£258	£258
SP Distribution	Closing RAV	£2,338	£2,338	£2,425
	Base Revenue less pass-through revenue	£305	£305	£308
SP Manweb	Closing RAV	£2,557	£2,557	£2,624
	Base Revenue less pass-through revenue	£334	£334	£337
EPN	Closing RAV	£3,220	£3,220	£3,220
	Base Revenue less pass-through revenue	£460	£460	£460
LPN	Closing RAV	£1,915	£1,915	£1,915
	Base Revenue less pass-through revenue	£269	£269	£269
SPN	Closing RAV	£2,103	£2,103	£2,103
	Base Revenue less pass-through revenue	£300	£300	£300

Table 2: Closing regulatory asset values and base revenues in the November 2025 Cost Information Tables and Review Packs (£m, 2020-21 prices)

DNO	Line	2027-28	2028-29	2029-30
Electricity North West	Closing RAV	£2,698	£2,698	£2,698
	Base Revenue less pass-through revenue	£371	£371	£371
East Midlands	Closing RAV	£3,046	£3,046	£3,046
	Base Revenue less pass-through revenue	£375	£375	£375
West Midlands	Closing RAV	£2,955	£2,955	£2,955
	Base Revenue less pass-through revenue	£368	£368	£368
South Wales	Closing RAV	£1,583	£1,583	£1,583
	Base Revenue less pass-through revenue	£187	£187	£187
South West	Closing RAV	£2,441	£2,441	£2,441
	Base Revenue less pass-through revenue	£281	£281	£281
Northeast	Closing RAV	£1,813	£1,870	£1,969
	Base Revenue less pass-through revenue	£243	£241	£248
Yorkshire	Closing RAV	£2,470	£2,603	£2,762
	Base Revenue less pass-through revenue	£317	£327	£337
SEPD	Closing RAV	£3,467	£3,467	£3,467
	Base Revenue less pass-through revenue	£492	£496	£496
SHEPD	Closing RAV	£2,023	£2,023	£2,023
	Base Revenue less pass-through revenue	£256	£258	£258
SP Distribution	Closing RAV	£2,479	£2,479	£2,622
	Base Revenue less pass-through revenue	£320	£320	£326
SP Manweb	Closing RAV	£2,652	£2,652	£2,764
	Base Revenue less pass-through revenue	£345	£345	£349
EPN	Closing RAV	£3,227	£3,227	£3,227
	Base Revenue less pass-through revenue	£458	£458	£458
LPN	Closing RAV	£1,925	£1,925	£1,925
	Base Revenue less pass-through revenue	£270	£270	£270
SPN	Closing RAV	£2,054	£2,054	£2,054
	Base Revenue less pass-through revenue	£291	£291	£291

Table 3: Closing regulatory asset values and base revenues in the December 2025/January 2026/February 2026 Cost Information Tables and Review Packs (£m, 2020-21 prices)

DNO	Line	2027-28	2028-29	2029-30
Electricity North West	Closing RAV	£2,675	£2,675	£2,675
	Base Revenue less pass-through revenue	£374	£374	£374
East Midlands	Closing RAV	£3,045	£3,045	£3,045
	Base Revenue less pass-through revenue	£375	£375	£375
West Midlands	Closing RAV	£2,954	£2,954	£2,954
	Base Revenue less pass-through revenue	£368	£368	£368
South Wales	Closing RAV	£1,582	£1,582	£1,582
	Base Revenue less pass-through revenue	£188	£188	£188
South West	Closing RAV	£2,441	£2,441	£2,441
	Base Revenue less pass-through revenue	£282	£282	£282
Northeast	Closing RAV	£1,811	£1,870	£1,969
	Base Revenue less pass-through revenue	£246	£241	£248
Yorkshire	Closing RAV	£2,477	£2,603	£2,762
	Base Revenue less pass-through revenue	£322	£327	£337
SEPD	Closing RAV	£3,691	£4,105	£4,520
	Base Revenue less pass-through revenue	£531	£569	£585
SHEPD	Closing RAV	£2,132	£2,323	£2,514
	Base Revenue less pass-through revenue	£265	£280	£287
SP Distribution	Closing RAV	£2,478	£2,478	£2,478
	Base Revenue less pass-through revenue	£320	£320	£320
SP Manweb	Closing RAV	£2,651	£2,651	£2,651
	Base Revenue less pass-through revenue	£345	£345	£345
EPN	Closing RAV	£3,228	£3,228	£3,228
	Base Revenue less pass-through revenue	£458	£458	£458
LPN	Closing RAV	£1,924	£1,924	£1,924
	Base Revenue less pass-through revenue	£270	£270	£270
SPN	Closing RAV	£2,054	£2,054	£2,054
	Base Revenue less pass-through revenue	£291	£291	£291

Table 4: Closing regulatory asset values and base revenues in the May 2026 Cost Information Tables and Review Packs (£m, 2020-21 prices)

DNO	Line	2027-28	2028-29	2029-30
Electricity North West	Closing RAV	£2,675	£2,675	£2,675
	Base Revenue less pass-through revenue	£374	£374	£374
East Midlands	Closing RAV	£3,045	£3,045	£3,045
	Base Revenue less pass-through revenue	£375	£375	£375
West Midlands	Closing RAV	£2,954	£2,954	£2,954
	Base Revenue less pass-through revenue	£368	£368	£368
South Wales	Closing RAV	£1,582	£1,582	£1,582
	Base Revenue less pass-through revenue	£188	£188	£188
South West	Closing RAV	£2,441	£2,441	£2,441
	Base Revenue less pass-through revenue	£282	£282	£282
Northeast	Closing RAV	£1,811	£1,870	£1,969
	Base Revenue less pass-through revenue	£246	£241	£248
Yorkshire	Closing RAV	£2,477	£2,603	£2,762
	Base Revenue less pass-through revenue	£322	£327	£337
SEPD	Closing RAV	£3,691	£4,105	£4,520
	Base Revenue less pass-through revenue	£531	£569	£585
SHEPD	Closing RAV	£2,132	£2,323	£2,514
	Base Revenue less pass-through revenue	£265	£280	£287
SP Distribution	Closing RAV	£2,478	£2,621	£2,765
	Base Revenue less pass-through revenue	£320	£326	£332
SP Manweb	Closing RAV	£2,651	£2,763	£2,875
	Base Revenue less pass-through revenue	£345	£349	£354
EPN	Closing RAV	£3,238	£3,238	£3,238
	Base Revenue less pass-through revenue	£459	£459	£459
LPN	Closing RAV	£1,923	£1,923	£1,923
	Base Revenue less pass-through revenue	£272	£272	£272
SPN	Closing RAV	£2,083	£2,083	£2,083
	Base Revenue less pass-through revenue	£299	£299	£299