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20 August 2026

By email only to: duos@ofgem.gov.uk

E.ON response to Ofgem's consultation on Notice period options for network charges at the start of ED3

Dear Distribution & Residual Charging team,

Thank you for the opportunity to respond to Ofgem's consultation on Notice period options for network charges for the start of ED3¹.

E.ON agrees that setting DUoS charges for the start of ED3 presents a significant challenge. Not only do 2028/29 DUoS charges need to be set before Ofgem has concluded its Final Determinations (FDs) if the current 15-month notice period is maintained, but there is potentially a significant increase in charges at a time when energy bills are already high. We recognise the concern that using early forecasts of allowed revenue can lead to later corrections. However, we do not agree that the trade-off Ofgem has identified between notice period and accuracy should be resolved by reducing the notice period.

In our view, the better answer is to preserve the 15-month notice period, while using an explicit, transparent smoothing mechanism to manage the affordability impact of any initial ED3 step-change in allowed revenue. This would avoid transferring DUoS forecasting risk from DNOs to suppliers and customers, while also avoiding an unnecessary first-year bill shock for households and businesses.

We therefore recommend that Ofgem develops a fifth option:

- **Option 5: retain the 15-month notice period for 2028/29 DUoS charges but apply an Ofgem-set ex-ante recovery ceiling and automatically re-profile any allowed revenue above the first-year recovery ceiling once Final Determinations are known.**

Under this approach, Ofgem would set a clear first-year recovery ceiling before December 2026 using the best available information, taking account of affordability, business energy costs, and Ofgem's duties on economic growth. This would enable the DNOs to publish 2028/29 DUoS charges in or around December 2026 as currently required, using the best available ED3 evidence. Once Ofgem's FDs are published, any difference between the allowed revenue embedded in published charges and the final ED3 Year 1 allowance would be automatically deferred and recovered over later ED3 years, with an appropriate time-value-of-money adjustment. This would change the timing of revenue recovery, not the efficient total allowance.

¹ [Electricity distribution network charges: notice period options | Ofgem](#)

We believe Ofgem should seriously consider this approach because it addresses the concerns raised in the consultation: It preserves the supplier and customer benefits of advance notice, reduces the need for risk premia in fixed-price contracts, and supports more effective competition. At the same time, it directly addresses Ofgem's affordability concern by smoothing any material step-up in network charges into ED3, rather than allowing the first year to absorb the full effect of uncertain early forecasts.

We think the consultation places too much weight on the concept of charging 'accuracy' and too little weight on predictability. Business consumers are increasingly seeking longer-term contract structures to support budgeting, investment and risk management (discussed further in confidential Annex 2). Shortening notice periods risks weakening suppliers' ability to offer those products or increasing the cost of doing so, as the DCP 469 workgroup evidence has found. That would be contrary to the interests of business consumers at a time when energy costs remain a significant competitiveness issue.

We also encourage Ofgem to draw on its own recent RIIO-3 precedent. In the RIIO-ET3 FDs, Ofgem recognised that necessary network investment could create short-term bill pressure and used revenue re-profiling to smooth the path of charges while preserving the underlying value of allowed revenues over the price control. A similar approach is even more relevant for ED3, where the issue is not only the affordability of an initial step-up in network costs, but also the risk that shortening notice periods transfers unhedgeable forecasting risk to suppliers and customers.

Ofgem has recently said that it sees affordability as "the heart of our work"². Given the severe pressures on energy bills, Ofgem should look to use every tool available to avoid unnecessary costs and where unavoidable consider how best to align the benefits and costs of investment to mitigate the short-term impacts on households and businesses. We believe our proposed option does that better than Ofgem's minded-to position.

Annex 1 sets out our detailed answers to questions in the consultation.

We hope these comments are helpful and would be pleased to discuss any aspect of this response further.

Yours sincerely,

James Doig

² Ofgem Annual Report and Accounts 2025-26, Chair and Chief Executive foreword (15 July 2026)

ANNEX 1: E.ON responses to consultation questions

Question 1: Are there any other notice period options that may be appropriate for Year 1 of ED3?

Yes. Ofgem should consider an additional option that preserves the current 15-month notice period while smoothing the timing of revenue recovery.

We propose an Option 5 that combines a 15-month notice period with an ex-ante recovery ceiling and automatic revenue profiling to ensure financial neutrality. Under this option, DNOs would publish first-year ED3 DUoS charges in December 2026, but Ofgem would set a transparent ceiling or smoothing rule for the first year of ED3. Any difference between that profiled recovery and the final Year 1 ED3 allowed revenue would be automatically profiled into later years, with an appropriate time-value-of-money adjustment.

The ex-ante ceiling does not need to represent Ofgem's best estimate of final allowed revenue. Its role would be to set a reasonable and transparent first-year recovery profile, informed by available DNO forecasts, affordability, and the distribution of risk between networks, suppliers, and customers.

This option directly addresses the core issue identified in the consultation, which is not simply the notice period. It is that the first year of a new price control creates a mismatch between the timing of tariff publication and the point at which efficient allowed revenue is finalised. The solution should therefore address revenue timing rather than simply reduce pricing certainty.

It has four advantages:

- it preserves the competition and customer certainty benefits of the existing notice period (in particular, by enabling suppliers to offer a wider choice of fixed-price products);
- it mitigates an unnecessary first-year affordability shock for households and business customers;
- it avoids relying too heavily on Draft Determinations (DDs), which can still change materially before FDs, and
- it is symmetrical and transparent, allowing DNOs to recover efficient allowed revenue over time.

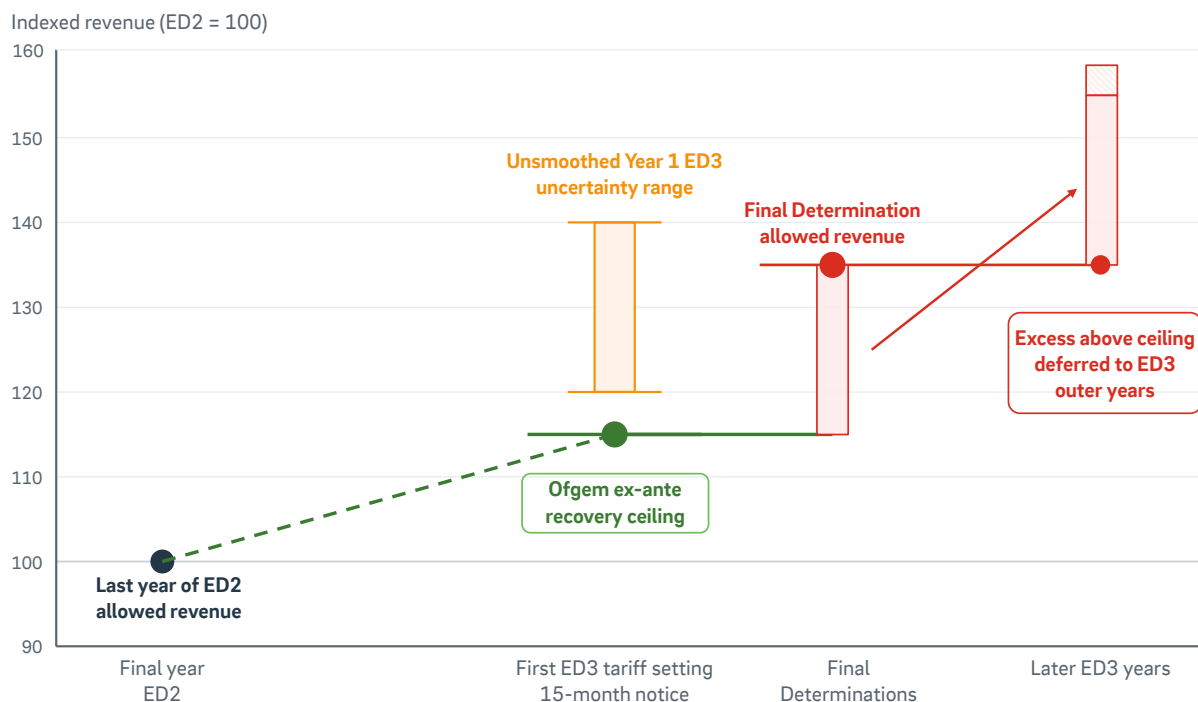
The request from DNOs itself recognises that the RIIO framework includes time-value-of-money adjustments on correction terms, making DNOs financially neutral to timing adjustments. This supports the feasibility of a smoothing approach in principle.

The mechanism should operate symmetrically. If FDs establish an allowance below the amount reflected in Year 1 charges, the over-recovery should be returned through the same transparent adjustment process. Furthermore, the recovery period and time-value-of-money treatment should be fixed transparently in advance.

Ofgem used revenue profiling as a mechanism to manage the consumer impact of network investment in last year's RIIO-3 FDs³. This approach was framed as a balance between investing now to avoid higher costs later and managing short-term bill impacts. We believe that this is directly relevant to ED3, and Ofgem should transparently consider a similar mechanism for ED3.

Figure 1 illustrates how revenue profiling could enable Ofgem to retain an adequate notice period. We recognise that Ofgem would need to set the ex-ante revenue ceiling before receiving Final Business Plans. However, Ofgem is better placed to make that assessment, drawing on direct engagement with DNOs and government, than individual suppliers and pass-through customers acting independently with materially less information. The alternative would require each supplier and customer to form its own view of future DUoS charges when pricing fixed-price contracts or forecasting energy costs when they may not even have access to Draft Business Plans.

Figure 1: Illustrative operation of an ex-ante ED3 recovery ceiling and subsequent revenue profiling



Question 2: Under Option 1, is a letter of comfort required to address the risk of over- and under-recovery?

Network companies are better placed to provide a view on whether a letter of comfort is sufficient to mitigate additional financial risk.

However, a transparent revenue profiling mechanism established through the relevant licence and price control arrangements could provide greater regulatory certainty to DNOs while protecting consumers from an abrupt first-year increase.

³ [RIIO-3 Final Determinations Overview Document](#) (4 December 2025), Foreword, page 6.

Question 3: How long do DNOs need to prepare and publish charges after receiving the final inputs relevant for a given option?

We do not have evidence on the operational period DNOs require.

Question 4: How long do LDNOs need to prepare and publish charges after DNO charge publication where a derogation is in place?

We do not have evidence on the minimum period required by LDNOs.

Question 5. Do you agree with Ofgem's initial assessment of the options for Year 1?

The central issue in this consultation is whether "accuracy" should be treated as more important than predictability. We agree that charges should ultimately recover efficient allowed revenue, and that DNOs should not be exposed to inappropriate under- or over-recovery. However, we do not agree that this means charges must be set as late as possible. From the perspective of suppliers and consumers, particularly business consumers, predictability can be more valuable than point-in-time accuracy. If charges are known with sufficient notice, suppliers can efficiently price them into tariffs and pass-through consumers can budget for them. In those circumstances, annual volatility in network charges is not irrelevant, but it is materially less harmful than volatility that is only confirmed at short notice.

Hence, we do not agree that Option 3 is the best overall solution. Option 3 materially weakens supplier and customer certainty by leaving them with less than a year's notice of the published Year 1 DUoS charges and would still rely on DDs, which may change before FDs. ENA's annex⁴ shows significant movements between ED2 DD and FD, including an average movement of 6.9% and a maximum increase of 11.1%. Ofgem's consultation similarly notes that for ED2 aggregate FD allowed revenues were c.13% lower than Business Plans and c.5% higher than that in DD.

Suppliers cannot hedge DUoS charges in the same way as wholesale costs, as the draft DCP 469 consultation records. Shorter notice periods are expected to increase forecasting uncertainty, risk premia, and pressure on fixed-price products.

Our preferred option is therefore our proposed Option 5. If Ofgem does not take forward a smoothing mechanism, then we would prefer Option 1 over Options 3 and 4, provided that Option 1 is accompanied by a strengthened revenue-management approach and better transparency of DNO assumptions.

We think Option 3 (5-8 months, DD) is a poor compromise. It reduces some charge-setting uncertainty for DNOs, but at the cost of materially reducing pricing certainty for suppliers and customers. **Option 4 (2 months, FD) is worse from a supplier/consumer perspective** because two months' notice is too short to support efficient fixed-price offers, budgeting and contract certainty.

⁴ [Annex: request from Distribution Network Operators and their proposed options](#)

Option 2 (13-14 months, Final BP) offers limited additional information compared with Option 1 (15 months), while still weakening notice.

Question 6: Do you agree with Ofgem's initial assessment of the options for Year 2?

We are less concerned about a one-month reduction for Year 2 than a material reduction for Year 1, because 14 months' notice would still provide a relatively long period of certainty and would allow charges to reflect FDs.