

Andrew Malley
Head of Distribution and Residual Charging
Energy Systems Management & Security
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

14 August 2026

Dear Andrew,

Notice period options for network charges for the start of ED3

Further to the Ofgem consultation published on 9 July 2026¹, we are responding on behalf of each of the Distribution Services Providers (as defined in the electricity distribution licence) and listed at the end of this letter (the “licensees”) and known as Distribution Network Operators (DNOs).

Summary of Main Points

- The Authority should issue directions such that the 15-months’ notice period required for Distribution Use of System (DUoS) charges need not apply for prices commencing 1 April 2028 and 1 April 2029, due to the need to properly and accurately reflect Ofgem’s Final Determination allowed revenue for ED3 within those prices. Notice periods should be reduced to 2-months and 14-months respectively reflecting option 4 in the consultation, with both sets of charges being published by the end of January 2028.
- Ofgem should look to the start of the previous two price controls as an indicator of the impact on ED3.
 - At the beginning of ED1 Ofgem deferred the implementation of 15-months’ notice, specifically due to allowed revenue uncertainty at the start of the price control.
 - At the start of ED2 Ofgem rejected the request to shorten notice periods, citing the perceived risks as being the transfer of risk from DNOs to suppliers and consumers; and that DNOs were better placed to manage forecasting risks associated with ED2 than suppliers and consumers.

There was significantly less volatility at the start of ED1, with shorter notice periods, than at the start of ED2 when the requirement for DNOs to provide 15-months’ notice period failed to shield or protect suppliers and consumers during a period of increased economic and geopolitical uncertainty. Similar, if not worse, circumstances to ED2 are in play for ED3, hence this is particularly relevant to Ofgem decision-making in this circumstance.

- Under the current arrangements, the licensees would be required to set prices for the 2028/29 Regulatory Year by 31 December 2026 when allowed revenues for ED3 are unknown. To do so, and to align with the most likely ED3 outcome, the licensees would need to estimate allowed revenue for the 2028/29 Regulatory Year using their Draft Business Plan submission. This approach would maintain a 15-months’ notice period but would risk significant price volatility later in ED3 when the highly uncertain estimates and assumptions are updated with the Final Determination values. This uncertainty (for the licensees and stakeholders) would be further compounded by the lack of clarity

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

on the form of the final licence conditions. Hence, option 4 (2-months' and 14- months' notice) is the only truly viable and reasonable decision.

- History shows that there can be significant movements between Ofgem's Draft and Final Determinations, so waiting for the most accurate information to be available would be highly beneficial and facilitate more stable and cost reflective tariffs.
 - In ED2 the average movement between Draft and Final Determinations was 6.9%, with a maximum movement of 14.1%.
- Tariff volatility is a problem for Suppliers and other market participants, and it could also pose financeability risks for the DNOs driven by cash flow volatility as future revenues would be unnecessarily exposed to corrections stemming from estimates made before Final Determinations are agreed. ED3 plans will likely include a significant emphasis on decarbonisation and therefore additional costs to achieve Net Zero by 2050. Aligning the setting of ED3 use of system charges to the Final Determinations mitigates risks to the licensees, and therefore to stakeholders, by aligning the timing and funding of network investment.
- Additionally, In CMP286: 'Improving TNUoS Predictability through Increased Notice of the Target Revenue used in the TNUoS Tariff Setting Process' Ofgem rejected longer notice periods as they would not be cost reflective and would give rise to volatility and not be in the customers interest.
- Related change requiring derogation: to implement these changes, Ofgem will also be required to issue a derogation in respect of DNO obligations for changing distribution time bands. Schedule 16 of DCUSA (Common Distribution Charging Methodology) states:

"Distribution Time Bands

41A The DNO Party may only change distribution time bands with effect from 1 April and must provide a minimum of 15 months prior notice of such changes. However, where a change to distribution time bands is caused by the implementation of a change to this methodology, the requirement to provide a minimum of 15 months' notice prior notice will not apply.

41B Notice of changes to the distribution time bands should be given in the relevant charging statement, and such notice should appear in the same paragraph of the statement as the time bands that are being changed."

A revision to these DCUSA obligations will be necessary to align any decision on tariff notice period with changes to distribution time bands before the end of the 2029/30 charging year.

Response to consultation questions

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

Arguments could be made for numerous different notice periods, but the proposals presented are a pragmatic set of potential options based around the price control timetable and the milestone when more robust and accurate information becomes available.

The indicative ED3 timeline, as published on 21 May 2026 in Ofgem's ED3 Sector Specific Methodology Decision (SSMD) highlights that Final Business Plan submissions are required to be submitted to Ofgem in December 2026, the same month as use of system charges for the 2028/29 Regulatory Year, the first year of ED3, must be published. This is one year before Ofgem publishes the Final Determinations and launches the statutory consultation on the ED3 licence conditions. The Final Business Plan submission date has subsequently been brought forward to November 2026.

Whilst maintaining the current approach would maintain a 15 months' notice period it risks significant price volatility later in ED3 as the highly uncertain estimates and assumptions are updated with the Final Determination values.

This uncertainty (for the licensees and stakeholders) would be compounded by the lack of clarity on the form of the final licence conditions. Hence, option 4 (2-months' and 14- months' notice) is the only truly viable and reasonable decision.

Licensees need time to fully assure the models and outcomes of the Final Determination, and, maintaining a January publication date allows for this.

History shows that there can still be significant movements between Draft and Final Determinations so waiting an additional 3 months for the most robust and accurate information to be available would be highly beneficial and facilitate more cost reflect tariffs (i.e. adopting option 4 rather than option 3).

- In ED2 the average movement between Draft and Final Determinations was 6.9%, with a maximum movement of 14.1%.

Question 2: Under Option 1, is a letter of comfort required to address the risk of over-and under-recovery – as we did for ED2?

This very much depends on the design of the final ED3 revenue allowances. If the regulatory formulas are specifically designed to say that any forecasting error penalties will be zero for the first two years of ED3 then a letter of comfort would not be necessary.

However, if they Ofgem makes its decision on reducing notice period for network charges for the start of ED3 before the form of the price control is finalised then a letter of comfort would appear sensible and appropriate.

Question 3: How long do DNOs need to prepare and publish charges after receiving the final inputs relevant for a given option (for example, Final Determinations for Option 4)? Does it vary for different options?

DNOs would typically need 4-6 weeks to digest and fully understand the Final Determination outcome, process charges, undertake robust validation and data assurance activities, gain internal sign-off and prepare and check the material to be published.

This is the same requirement for any of the options, with the exception of option 3 where longer (8 weeks) would be required due to other annual deliverables which coincide with this timeline e.g. the losses setting process.

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

This is for the LDNOs to respond to. However, Ofgem's suggestion that LDNOs publish charges no later than one month after publication of tariffs by the DNOs doesn't seem unreasonable.

Assuming the Final Determinations are published in December 2027, and providing 2-months' notice, use of system charges for the 2028/29 Regulatory Year would be published no later than 31 January 2028. This would provide a further 20 days for Independent Distribution Network Operators (IDNOs) and DNOs operating Embedded Distribution Networks (EDNs) to publish their use of system charges with the default 40 days' notice as set out in the distribution connection and use of system agreement (DCUSA).

Question 5: Do you agree with our initial assessment of the options for Year 1? Please provide evidence to support your views, including benefits and risks with each option. In particular, please provide evidence of the degree to which risk premia could change under Options 2, 3 and 4 as compared with the baseline of Option 1.

We do not agree that that Ofgem has made the right minded to decision and we strongly feel that Ofgem should adopt option 4 rather than option 3.

Ofgem has rightly discarded option 1 and option 2, due to the uncertainty over the accuracy of the data available, the level of maturity of the price control settlement and its key decision points and the level of development of the associated models (e.g. the PCFM).

The later charges are set the more accurate the information they are based on will be, resulting in more stable charges.

The advantages of option 4 over option 3 are:

- A retrospective analysis of ED2 revenues shows much greater stability under a 2-month notice period, which would be advantageous to suppliers and customers in the light of the economic and geopolitical tensions and the ED3 framework uncertainty. This is also supported in the historic path of prices which clearly shows more price volatility at the start of ED2 than any time in recent history.
- DUoS charges remain a relatively small and stable proportion of supplier and household energy bills, so shouldn't be the driving force behind any additional risk premia being added to supplier bills.
- There are historical examples of where 15-months' notice has been reduced to accommodate policy implementation (e.g. Supplier of Last Resort (SoLR)) with possible further initiatives on the horizon (debt relief scheme). This means that suppliers already face shorter notice periods.
- The implementation of 15-months' notice was deferred at the start of ED1, specifically due to allowed revenue uncertainty – Final Determination are far more robust than the Draft Determinations.
- We saw significant volatility at the start of ED2 when the 15-month notice was not deferred.
- There can be significant movement between the Draft and Final Determinations. In ED2 there was on average 6.9% movement between Draft and Final Determinations with the maximum DNO increase being 11.1% and compared to the maximum reduction being 14.1%.
- For Option 4 all information is available: Updated ED2 actuals and forecasts via RRP, all 2025/26 and 2026/27 charging model inputs are available for both years; fully developed PCFM populated with Final Determinations outcomes is available and it could accommodate the Autumn 2027 OBR inflation update (inflation variations between the Ofgem prescribed values used for setting charges and the actual outturn values influence the tariff volatility).
- Option 4 will result in more stable tariffs for suppliers and consumers (less volatility).
- Less variability in charges will mean less political pressure and media attention.
- There are less competing other regulatory and business obligations such as the SLC46 regulatory return, the annual losses calculations and ED3 workload. Charge setting is a complex process where precision and robust assurance are paramount. Coinciding with other major deliverables introduces a higher risk of error.
- It allows time for model testing (a dry run to ensure no negative residuals could be tested on the Draft Determination figures which would allow Ofgem to have advanced warning of any potential issues – option 3 doesn't allow any meaningful data to be used for testing).
- It aligns with the notice periods in other industry sectors.
- We are operating in a more uncertain economic and geopolitical environment than any time in recent history.
- Charges for both years run together and are communicated simultaneously to Suppliers.

In terms of Ofgem's assessment of the options, careful prioritisation is needed between each criterion. We believe cost-reflectivity should be the primary consideration.

- **DNO Obligations** – Ofgem has rightly identified that option 3 comes with significantly more competing obligations than other options, specifically the SLC46 regulatory return, the annual losses

calculations and ED3 workload. Charge setting is a complex process where precision and robust assurance are paramount. Coinciding with other major deliverables introduces a higher risk of error and Ofgem's best way of mitigating this is to move to option 4.

- **Competition** – We are not convinced that the notice periods have a significant impact on competition.
 - The supply market is much more stable now, than at the start of ED2, with minimal supplier failures.
 - The prices that the network operators put into the market are the same for all suppliers and communicated at the same time. In addition, all suppliers also receive regular updates of the likely path of charges via the DNO Cost information Review Pack (CIRP) publications (indicative charges).
 - The bigger driver on competition is Ofgem's Energy Price Cap that sets the default supply tariff levels and is now refreshed on a quarterly basis (previously bi-annually). DUoS charges remain a relatively small and stable proportion of supplier and household energy bills, so shouldn't be the driving force behind competition or additional risk premia being added to supply bills.
 - Option 4 is also likely to provide greater stability in charges as the most robust and accurate information is available: updated ED2 actuals and forecasts via RRP, all 2025/26 and 2026/27 charging model inputs are available for both years; fully developed PCFM populated with Final Determinations outcomes is available and it could accommodate the Autumn 2027 OBR inflation update (inflation variations between the Ofgem prescribed values used for setting charges and the actual outturn values influence the tariff volatility).

Additionally, Ofgem's decision on CMP286: 'Improving TNUoS Predictability through Increased Notice of the Target Revenue used in the TNUoS Tariff Setting Process' referenced that longer charging periods could hurt competition.

"We also consider the CMP286 Proposals to have potentially negative impacts on competition. In the context of the significant volumes of transmission infrastructure being built to facilitate network reinforcement, it is likely that the coming years will see significantly increased Target Revenues. Setting these values over a year prior to their expected expenditure, as proposed under both the Original Proposal and WACM1, would likely result in under/over recovery in charges requiring reconciliation of large sums of money between charging years. Whilst we accept that each Transmission Licensee would be 'made whole' per the price control framework, we consider that this additional carryover into future years is likely detrimental to competition as it would likely increase the absolute value of year-on-year variances in TNUoS, making it less predictable for suppliers seeking to price their consumer contracts and therefore jeopardising effective competition."

- **Cost reflectivity** – Ofgem rightly identify that shorter notice periods are more likely to better facilitate cost-reflectivity with charges better reflecting the costs that networks will face. This is because charges would be set based on information that better reflects the allowed revenue that the charges are seeking to recover and the specific relevant mechanics of the price control. Whilst the publication of Draft Determinations is the earliest indication of Ofgem's view on DNOs' proposed allowances, history shows that there can still be significant movements between Draft and Final Determinations. Hence, waiting for the most accurate information to be available would be highly beneficial and facilitate more stable and cost reflective tariffs. In ED2 the average movement between Draft and Final Determinations was 6.9%, with a maximum movement of 14.1%. The cost reflectivity improvements of a shorter notice period are not just limited to the allowed revenue. There are benefits with being able to more accurately predict the EHV customers with the latest data, update the CDCM inputs to use the latest data and use later data in the IDNO portfolio discount models.
- **DNO Business Development** – We agree that shorter notice periods are more likely to better facilitate this objective, in the specific context of a new price control. Option 4 is the only option that would accurately reflect the final ED3 settlement and reduce cashflow risk for DNOs associated with mismatches between expenditure and revenue recovery.

- **Efficiency** – Ofgem is wrongly of the opinion that only longer notice periods allow enough time to correct errors with model failure. Option 4 does allow time for model testing (a dry run to ensure no negative residuals could be tested on the Draft Determination figures which would allow Ofgem to have advanced warning of any potential issues – option 3 doesn't allow any meaningful data to be used for testing).

In terms of the risk premia question, only suppliers can answer this. However, DUoS charges remain a relatively small and stable proportion of supplier and household energy bills, so shouldn't be the driving force behind any addition risk premia being added to supplier bills.

Question 6: Do you agree with our initial assessment of the options for Year 2? Please provide evidence to support your views, including benefits and risks with each option.

Yes, we agree that a delay of one month to publication of the second year of charges (2029/30) to allow more accurate information to set tariffs is proportionate at a change in price control.

- **Competition** – As stated above, we are not convinced that the notice periods have a significant impact on competition. However, it will allow time to fully assure the models and outcomes of the Final Determination.
- **Cost-reflectivity** – We agree that a one-month reduction in the notice period would better facilitate cost-reflectivity. A notice period of 14-months' would allow charges to be set based on allowed revenues from Final rather than Draft Determinations which will be the most accurate and robust information available.
- **DNO Business Development** – As for the first year of ED3, a shorter notice period would more accurately reflect the ED3 settlement and reduce cashflow risk for DNOs associated with mismatches between expenditure and revenue recovery.
- **Efficiency** – We agree that a shorter notice period would better facilitate this objective.

Question 7: What was the impact of the year-on-year variability in charges at the start of ED2 on contractual arrangements, budgeting and any other relevant elements of your business/experience? Please include reference to the impact this had on your customers. Did the longer notice period compensate for this variability?

We believe that this question is targeted at supplier and other stakeholders, rather than the network companies.

DNOs have demonstrated via a retrospective analysis of ED2 revenues that there would be much greater stability under a 2-months' notice period, which would be advantageous to suppliers and customers in the light of the economic and geopolitical tensions and the ED3 framework uncertainty. This is also supported in the historic path of prices which clearly shows more price volatility at the start of ED2 than any time in recent history.

Yours sincerely,



Paul McGimpsey
Director Markets & Regulation
Energy Networks Association

Copied to: Ofgem Distribution & Residual Charging team at duos@ofgem.gov.uk

This response is sent on behalf of:

1. Electricity North West Limited
2. Northern Powergrid (Northeast) plc
3. Northern Powergrid (Yorkshire) plc
4. SP Distribution plc
5. SP Manweb plc
6. Scottish Hydro Electric Power Distribution plc
7. Southern Electric Power Distribution plc
8. Eastern Power Networks plc
9. London Power Networks plc
10. South Eastern Power Networks plc
11. National Grid Electricity Distribution (East Midlands) plc
12. National Grid Electricity Distribution (West Midlands) plc
13. National Grid Electricity Distribution (South West) plc
14. National Grid Electricity Distribution (South Wales) plc



Energy Networks Association

4 More London Riverside

London SE1 2AU

t. +44 (0)20 7706 5100

w. energynetworks.org

 [@EnergyNetworks](https://twitter.com/EnergyNetworks)

© ENA 2020

Energy Networks Association Limited is a company registered in England & Wales No. 04832301
Registered office: 4 More London Riverside, London, SE1 2AU