



Distribution & Residual Charging Team
Ofgem
10 South Colonnade
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London

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Sent via email: duos@ofgem.gov.uk

Cc: alun.rees@engie.com

Re: Electricity distribution network charges: notice period options

About ENGIE

ENGIE is a major player in the energy transition. Our purpose is to accelerate the transition towards a carbon-neutral economy. With 98,000 employees in 30 countries, the Group covers the entire energy value chain, from production to infrastructures and sales. ENGIE combines complementary activities: renewable electricity and green gas production, flexibility assets (notably batteries), gas and electricity transmission and distribution networks, local energy infrastructures (heating and cooling networks) and the supply of energy to individuals, local authorities and businesses. Every year, ENGIE invests more than €10 billion to drive forward the energy transition and achieve its net-zero carbon goal by 2045.

ENGIE is a longstanding investor in the UK, with over 20 years of operations and around 8000 employees. We produce, store and supply renewable electricity and gas. Our current UK portfolio includes:

- Renewable electricity generation: around 200MW of onshore wind and solar, and around 1.8GW of offshore wind via Ocean Winds, our joint venture with EDPR.
- Renewable gas production: four sites producing around 220GWh of biomethane every year.
- Flexible power and gas storage: majority ownership of Dinorwig (1.8GW) and Ffestiniog (360MW) pumped hydro. 100MW of BESS in construction. We own and operate 5TWh of fast-cycling natural gas storage in Cheshire.
- Electricity and gas supply: we have around 17k B2B customers who we are helping to decarbonise with green electrons and molecules. We are a significant provider of green Power Purchase Agreements (PPAs) and growing the market for Biomethane Purchase Agreements (BPAs).
- Electricity networks: in 2026 ENGIE acquired UK Power Networks, the UK's largest electricity distribution network operator, serving around 8.5 million customers across London, the South-East and East of England and operating approximately 192,000 km of network. The acquisition strengthens ENGIE's regulated UK infrastructure footprint and supports electrification, system flexibility and decarbonisation.

We have ambitions to significantly grow our UK business over the next few years.

Thank you for the opportunity to respond to this consultation. Please note that we are responding in the capacity of non-domestic electricity supplier and we have provided a general response rather than following the set questions, some of which are more appropriate for network operators.

In summary we:

- Support Option 3 (a partial reduction in the notice period to 5-8 months) for Year 1 of the ED3 price control only
- Reject Option 4 (reduction in the notice period for Year 1 to 2 months) and Option 2 (reduction in the notice period for Year 1 to 14 months)

- Support the reduction of the notice period to 14 months for Year 2 of the ED3 price control only
- Maintain that 15 months, as implemented via DCP178, is the appropriate notice period for “business as usual” years

Our detailed discussion of the options can be found below.

We understand that the Distribution Network Operators (DNOs) have proposed a range of options for a shorter notice period for DUoS charges for Years 1 and 2 of Electricity Distribution Price Control 3 (ED3, 2028 – 2033) as they believe that shortening the notice period would reduce year-on-year revenue variability risks to suppliers and consumers.

For ED3 Year 1, the reduction in the current notice period of 15 months (Option 1) ranges from 2 months (Option 4, the DNOs preferred option) to alternative options of 13-14 months (Option 2), and 5-8 months (Option 3). A reduction in the notice period from 15 months to 14 months is proposed for Year 2.

A significant proportion of non-domestic electricity supply contracts are sold on a fixed price basis, with DUoS costs (which are a significant bill element for non-domestic consumers) fixed for the duration of the contract. Our view is that for these fixed price contracts, any reduction in the notice period represents a degree of transfer of risk from DNOs to suppliers, with this obviously increasing as the notice period shortens.

As a general principle, and not solely in relation to the ED3 price control period, we believe networks are better able to bear the risk of changes to the network charges arising after the date on which they are finalised than electricity suppliers. This is because DNOs can adjust costs in future years of the price control period to recover any losses that arise from DUoS charges being set too low in the early years and are better able to finance this due to their position as regulated sole providers in their regions with significant asset bases. By contrast electricity suppliers are exposed to the risk of changes to DUoS charges once the fixed price contracts have been agreed and have no means to hedge this other than increasing risk premia in contracts. As a result we are generally not supportive of reductions in the notice period as we set out in our recent response to DCP469.

However, we do recognise the particular circumstances associated with the first two years of the ED3 price control, as opposed to a “normal” year. It is significantly more likely that there will be a large difference between the Year 1 charges as forecast at 15 months and the final out-turn at a shorter notice period due to the greater scope for changes in the run up to the Final Determination of the price control. This increases the risk that DUoS charges would need large adjustments in subsequent years of the price control, which would not necessarily be in the interests of all consumers.

There is therefore a case to be made for balancing the benefits of a longer notice period (less risk for suppliers, lower risk premia for customers) against the negative effects of year on year variability. We note the DNOs evidence that there was greater year-on-year variability in allowed revenues during the first two years of ED2 compared with both the rest of ED2 and historically, and agree that this should inform the approach to ED3, particularly as we approach ED3 in a complex policy context driven by the needs to both address consumer costs and drive faster network build.

We are therefore aligned with Ofgem’s assessment that “Option 3 (5 to 8 months’ notice) appears to be a pragmatic approach for the specific issue of the first year of a new price control, balancing maximising the notice period while reducing year on-year variability”, noting that Option 3 has meaningful potential to reduce year-on-year volatility as the charges would be based on the Draft Final Determinations as opposed to the DNOs’ Final Business Plans.

We do not support Option 4 (2 months’ notice) as it moves virtually all the charge volatility risk onto suppliers and is likely to lead to increased risk premia for fixed customers. Reduction to 2 months for ED3 Year 1 as proposed in Option 4 would mean that supplier charge forecasts 12-15 months in advance of contract start were potentially very inaccurate, and lead to a significantly increased risk



premium to cover this (for example, a two-year contract agreed in January would have no certainty of DUoS charges for either year).

For larger customers on pass through contracts renewing in advance of ED3 Year 1, the very short notice period for changes to DUoS charges in Option 4 would make it more difficult for them to have certainty in forward budgeting for this significant cost element in their energy bills. There is also potential for this uncertainty to impact investment decisions, particularly when considering costs in the first year of operation. Even if the change to the notice period only affects one year, investment decisions may be delayed in order to contract in a year where there is longer term certainty on the charges. Option 3, although reducing the notice period for charges, may provide an offsetting benefit for these pass through customers by reducing their exposure to year-on-year charge volatility at the start of a price control period and as such is preferable to Option 4.

Option 1 (15 months' notice) is our preferred "business as usual" approach when charges are being set outside the particular circumstances of Year 1 of a price control period, but as outlined above we agree that a pragmatic approach is appropriate for ED3 Year 1 and Option 3 best achieves this.

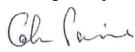
Option 2 (13-14 months' notice) does not offer sufficient differentiation from the status quo to achieve the necessary balance of predictability of costs for suppliers and avoidance of large year on year changes during the price control period. It is also less likely to achieve the objective of reducing variability year-on-year as it is based on the Final Business Plan, as opposed to the Draft Final Determination (which is the case with Option 3).

While we can support Option 3 in these particular circumstances, we would emphasise that this is not our default position for other charging years. We would also suggest that if Option 3 is approved this should come with an obligation on DNOs to publish as accurate a forecast as they can in line with the usual 15 month notice period. This would not be a binding forecast on DNOs and would purely be for the information of suppliers but would help suppliers to manage risk to some extent.

We agree with Ofgem's assessment of the Year 2 proposal, as a small one-month reduction in the notice period for Year 2 will allow the charges to be based on the Final Determination and reduce year-on-year volatility with very little impact on risk premia that may be applied to fixed price contracts.

To conclude, we believe that it is a well-established principle supported by previous Authority decisions that longer DUoS charges notice periods allocate the risk of charge volatility to the industry parties that can best manage it, help lower costs for consumers by reducing the level of risk priced into fixed term contracts and assist larger pass-through contract customers in the I&C market with budgeting and investment decisions. We are not therefore supportive of a radical reduction in the notice period for ED3 Year 1 (Option 4) as the greater cost reflectivity it would provide for DUoS charges would be offset by higher risk premiums charged by non-domestic suppliers contracting in advance of the charges being known, but can accept that, for the year in question only, Option 3 provides a pragmatic balance between an adequate notice period and avoidance of year-on-year charge volatility. We also agree with the approach proposed for Year 2.

Yours sincerely

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