

## **Energy UK response to Ofgem's Notice Period Options for Network Charges for the start of ED3 Consultation**

**20 August 2026**

### **About Energy UK**

**Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs.**

From growing start-ups to major electricity generators, grid and infrastructure developers and energy suppliers, our members are driving change across power, heat, transport and flexibility.

We provide a collective voice for the sector working with governments, regulators, charities and other organisations to provide crucial insight that shapes policy, offers solutions and promotes best practice.

Our broad view across the whole system supports evidence-based positions which are not tied to particular technologies, and are focused on delivering strategic benefits for people, businesses and the economy.

We champion initiatives such as our Vulnerability Commitment, which pushes suppliers to go beyond regulation to support customers with additional needs, and TIDE, the industry's drive for greater inclusion and diversity. Through our Young Energy Professionals Forum, we support the development of future leaders.

We are equally committed to our team and are proud to be recognised as a 'Platinum' Investors in People employer.

### **Executive Summary**

Energy UK does not agree that the notice period should be shortened. As noted in Ofgem's own decision ahead of the RIIO-ED2 price control, this change would move uncertainty and risk from network companies to retailers and consumers. While acknowledging challenges around the Option 1 precedent (keeping the 15-month notice period plus Ofgem issuing a letter of comfort), in the face of market volatility, this precedent remains the approach that is least disruptive to the energy supply market and best for businesses and households.

Ofgem should retain the existing 15-month notice period for year 1 and year 2. If the Distribution Network Operators (DNOs) are very concerned about retaining the 15-month notice period, then a Letter of Comfort would be appropriate in helping reduce their risk. A letter of comfort would let DNOs know that they can recover their allowed revenues and not be disadvantaged by under-recovery and that they would be protected against penalty interest rates where discrepancies in their calculations are attributable to the new price control.

DNOs are better placed to hold the additional risk of a 15-month notice period than suppliers would be if the notice period were to be shortened. Suppliers are unable to hedge against Distribution Use of System (DUoS) charges and already have small margins, a shorter notice period may make suppliers feel the need to add a risk premium which would add costs onto customer's bills.

An alternative option that Ofgem could explore is one where there is an ex-ante revenue ceiling set for the first year of RIIO-ED3 at around the time of the draft Business Plans, allowing 2027/28 DUoS tariffs to be set with around the usual notice period of 15 months. Once Ofgem determines the baseline allowed revenue for RIIO-ED3, any revenue above the revenue ceiling would be deferred/re-profiled throughout the remainder of the RIIO-ED3 period and DNOs could receive a financing return on any revenue that is deferred, so that they are not financially disadvantaged by having to recover this revenue later.

It should be noted that some Energy UK members will respond to this consultation individually with their own specific views.

If you have any questions about this response or wish to engage with Energy UK and its members, we would welcome further engagement.

Kind regards,

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## Consultation Questions

### DNOs' request and proposed options

#### **Q1. Are there any other notice periods options that may be appropriate for Year 1 of ED3?**

Within the options provided, Energy UK's position is that the most appropriate notice period would be the existing 15 months<sup>1</sup>.

Ofgem should look at exploring an option whereby there is an ex-ante revenue ceiling set for the first year of RIIO-ED3 at around the time of the draft Business Plans, this would allow 2027/28 DUoS tariffs to be set with around the usual notice period of 15 months. Like the revenue smoothing mechanism utilised in the RIIO-T3 price control, a similar method could be used in this circumstance. At Final Determination, once Ofgem determines the baseline allowed revenue for RIIO-ED3, any revenue above the revenue ceiling would be automatically deferred/re-profiled throughout the remainder of the ED3 period and as with the RIIO-T3 approach, DNOs could receive a financing return on any revenue that is deferred, ensuring they are not financially disadvantaged by having to recover this revenue later.

#### **Q2. Under Option 1, is a letter of comfort required to address the risk of over- and under-recovery – as we did for ED2?**

A letter of comfort would give DNOs confidence that they can recover their allowed revenues and will not be disadvantaged by under-recovery. Reducing this risk may also lessen any incentive for DNOs to set overly cautious DUoS charges in an attempt to avoid the possibility of under-recovery.

Other benefits include:

- Continuation of a consistent approach to supplier price forecasting supports market stability at a volatile time.
- Protection for DNOs against penalty interest rates where discrepancies in their calculations are attributable to the new price control.
- Risk is correctly positioned, in alignment with Ofgem's previous findings.

Requirements to remain appropriate:

- Ofgem publishes networks' revenue baselines before the end of 2026, while mandating a standard, transparent calculation framework across all DNOs to help with price forecasting consistency.
- Ofgem introduces conditions to the distribution license that require DNOs to spread over time the cost of transitioning to the new price control.

### Ofgem initial assessment of the options

#### **Q5. 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**

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<sup>1</sup> Energy UK members have varied views on the exact arrangements that should be implemented, and some will respond independently, including ENGIE UK

**premiums could change under Options 2, 3 and 4 as compared with the baseline of Option 1.**

Five years ago, due to concluding unfairness around the transfer of risk from the DNOs to suppliers and customers, Ofgem rejected a call to reduce the notice period, finding that in the system, the DNOs are most reasonably positioned and equipped to manage the initial forecasting risks to their revenue. The reduction of the notice period would transfer price forecasting risk from the DNOs to suppliers, which, as is realistic in a commercial market, would place suppliers in the position of protecting their businesses' stability and ultimately their customers' supply by introducing risk premiums into their price forecasting – driving up costs for customers in a way that Ofgem can also avoid now.

Under the substantially truncated 5-8 month notice period Ofgem discusses, suppliers face quickly having to absorb sudden, unhedged financial losses if network charges jump higher than predicted. Non-domestic contracts tend to be longer than domestic contracts, with fixed-term contracts of three to five years, which suppliers are locked into, being common.

Also, DUoS itself accounts for a substantial portion of the already significant section of the customer's bill that is attributable to network charges, and suppliers rely entirely on the current 15-month notice period to accurately forecast pricing for these long-term contracts.

**Option 3 risks:**

- Year 1 (5-8 months' notice)
  - Reducing the notice period from 15 months down to 5-8 months will force suppliers to fix long-term contracts based on estimates alone, long before final network costs are known. Business users looking to fix their energy costs will still want long-term contracts, but they and the retail companies will have to take on additional risk, resulting in additional risk premiums. Removing the suppliers' ability to provide accurate, comprehensive pricing will lead to uncertainty around cost recovery due to indicative pricing. This may also be detrimentally impactful for third-party intermediaries' (TPIs) and large industrial/commercial customers' business energy procurement and cost management strategies.
  - Pricing without sufficient clarity can mean suppliers under-recover unanticipated network cost spikes, triggering immediate erosion of their already minimal profit margins. This would impact market stability and risk further supplier failures, to the cost of all consumers.
  - Over-recovery of network costs due to unintended indicative overpricing for risks that never materialised threatens to damage customers' trust in energy suppliers and impact their competitiveness, both of which Ofgem seeks to support.
  - This short timing window exposes suppliers to having to protect their businesses' stability by hedging in risk premiums for 2028, driving up

energy bills for businesses in the very near term, considering the timings around pricing decision-making in the market.

- Year 2 (14 months' notice)
  - This would go against the precedent set by Ofgem on the grounds of unfairness, and would go against the Ofgem decision to reject DNO requests for the entirety of the price control to have a 14-month notice period for network charges.
- Ongoing
  - Cumulative impact of forecasting risk premium hedging driving up energy costs for customers across network charges as adjustments are made that don't take a holistic view to outcomes for customers, such as with RIIO3 Transmission Network Use of System (TNUoS), NESO's Working Capital Facility (WCF) uplift sought for Balancing Services Use of System (BSUoS) under CUSC modification proposal CMP 475, and now this. Such a regulatory approach risks undermining Ofgem's proposed future Fair Value Consumer Outcome before it is even established.

Shorter notice periods under Options 3 and 4 would allow the DNOs to come up with more accurate DUoS charges and reduce the year-on-year variability in charges, but the risk would be passed directly onto retailers and consumers. Also, suppliers need as much time as possible for the notice period in order to better formulate and offer fixed contracts which help insulate customers from price shocks. Without knowing the cost of providing these products at point-of-sale, suppliers may then need to incorporate a risk premium. There is also a chance that some suppliers may not incorporate a risk premium into their contracts and may have underpriced their contracts, only realising when the charges are published. If suppliers have sold a lot of those products it could lead to significant losses for them.

Furthermore, in the ED2 period, on aggregate, the allowed revenues set by Final Determinations were lower than those requested in the Business Plans. This should motivate networks to provide a reasonable and accurate estimate of costs within their business plans, rather than setting unreasonable revenue expectations that Ofgem must later significantly adjust.

Whilst Option 3 provides a balance between longer and shorter notice periods, allowing greater tariff accuracy than Options 1 and 2 by enabling DUoS charges to be informed by the Draft Determinations, it avoids the very short notice period under Option 4, which could place significant pressure on suppliers and increase the risk premium they build into customer tariffs. But Options 1 and 2 would allow for greater competition as suppliers would not have to take on as much forecasting risk, with the cost savings on risk premia passed onto customers.

Finally, there is a strong case for retaining the longer notice periods under Options 1 or 2, provided a Letter of Comfort is issued. A Letter of Comfort would give DNOs confidence that they will not be disadvantaged by under-recovery, reducing any incentive to adopt overly cautious charging assumptions, whilst still providing

suppliers with sufficient advance notice to incorporate DUoS charges into retail tariffs without increasing risk premia.

This approach was successfully adopted at the start of RIIO-ED2, with no significant issues arising. The longer notice periods under Options 1 and 2 deserve serious consideration because, whilst suppliers can hedge against wholesale electricity prices, they cannot hedge against DUoS charges. Given the already narrow margins within the retail supply market, providing greater certainty over network charges is particularly valuable.

**Q6. 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.**

A 14-month notice period for year 2 would allow for more cost reflectivity than a 15-month notice period as it would allow charges to be based on the final determinations rather than the draft determinations. There is not a significant difference in length of notice between the 15-month and 14-month options for year 2 so it may be possible that both options provide sufficient time for suppliers to budget and forecast, calculate retail tariffs and price contracts.

However, the 15-month notice period would remain preferable for year 2, as it is for year 1, because suppliers cannot hedge DUoS charges and already operate on small margins. These small margins leave them with limited capacity to absorb this risk.