



Independent Networks
Association

Distribution & Residual Charging Team
Ofgem

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

20th August 2026

Dear Colleague,

RE: Response to Ofgem Consultation: Notice Period Options for Network Charges for the Start of ED3

Thank you for the opportunity to respond to the consultation on notice period options for network charges at the start of ED3. I am responding on behalf of the Independent Networks Association (INA), who represent Independent Distribution Network Operator (IDNO) licence holders, in addition to Independent Gas Transporters (IGT) licence holders. As mentioned in the consultation, we are directly impacted by any changes to DNO publication timelines, given the consequential impacts on LDNO charging notice periods.

We support a derogation from the current charging notice period requirements for the transition into ED3. In our view, the uncertainty associated with a new price control period justifies a different approach to that adopted during an established price control. The consultation recognises that charge setting at the start of a new price control must be undertaken against a backdrop of uncertainty regarding allowed revenues, incentive mechanisms and financial parameters, and that this uncertainty is significantly greater than during the remainder of the price control period.

Our members' experiences of previous price control transitions suggests that setting charges before the final regulatory picture is known can result in substantial corrections in subsequent years. This was particularly noticeable for RIIO-ED2 where periods of inflation and changes to the correction factor meant that INA members were exposed to significant year on year changes in charges. Whilst revenue correction mechanisms ensure eventual recovery of allowed revenues, the practical consequence for network users is often significant year-on-year movements in charges. These movements can create challenges for budgeting, forecasting, investment and customer communications. For INA members these issues manifest in swings in revenue as the vast majority of IDNO charges are capped to the DNO equivalent tariff.

For Year 1 of ED3, we therefore support Option 4, under which charges would be published following Final Determinations. In our view, this approach provides the greatest tariff accuracy, minimises the risk of large future corrections and should contribute to greater stability in charges over the course of the price control.

For Year 2 of ED3, we support Ofgem's proposal to reduce the notice period from 15 months to 14 months, enabling tariffs to be informed by Final Determinations while representing only a modest departure from existing arrangements.

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More broadly, we consider that customers are generally better served by charges that are based on the best available information and reflect the final regulatory settlement, that results in less year-on-year volatility of charges, rather than by earlier publication of charges that subsequently require material correction and volatility.

The INA supports the continued publication of the Cost Information Review Pack (CIRP) despite the notice period option chosen. As it gives an indicative view of the direction of movement of network costs

We set out our responses to the consultation questions below. Please contact me if you have any queries or require further information.

Yours sincerely,

Nicola Pitts , Executive Director

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Consultation Responses

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

We consider the options presented by Ofgem to be sufficiently comprehensive, as they cover the key stages of getting to the final DNO allowed revenues.

In our view, the key outcome should be to ensure that charges are informed by Ofgem's regulatory assessment rather than DNO business plan assumptions. Once Final Determinations are available, the uncertainty surrounding ED3 revenues is substantially reduced, allowing more accurate tariff setting and reducing the risk of significant corrections in subsequent years.

Q2. Under Option 1, is a letter of comfort required to address the risk of over-and under-recovery, as was done for ED2?

If Ofgem retains Option 1, then a letter of comfort would be appropriate. However, we do not consider this addresses the underlying issue. The challenge is not primarily the financial exposure of network operators, since over- and under-recovery mechanisms largely ensure revenue neutrality over time. The greater concern is the volatility experienced by customers and suppliers when charges are established using assumptions which subsequently prove inaccurate.

A letter of comfort may mitigate regulatory concerns regarding recovery mechanisms but does little to reduce tariff volatility. Consequently, our preference would be for a shorter notice period that allows charges to be based on more accurate data rather than relying on a letter of comfort to manage forecasting risk.

Q3. How long do DNOs need to prepare and publish charges after receiving final inputs relevant for a given option?

As the INA represents IDNOs, we are not best placed to comment on the operational timescales required by DNOs to produce and publish DUoS charges. We consider DNOs are better placed to provide this information.

Q4. How long do IDNOs need to prepare and publish charges after DNO charge publication where a derogation is in place?

IDNOs require sufficient time to process DNO tariffs, undertake validation activities, update charging systems if required and complete governance processes before publishing charges. We consider that one month following DNO publication remains appropriate and aligns with existing arrangements.

Q5. Do you agree with Ofgem's initial assessment of the options for Year 1?

We agree with Ofgem's assessment that shorter notice periods have the potential to reduce charge volatility and improve the accuracy of tariffs at the start of a new price control.

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However, unlike Ofgem's initial preference for Option 3, our preferred option is Option 4 (2-month notice period).

From an IDNO perspective, the most important consideration is ensuring that charges for the first year of ED3 are based on the most accurate and complete information available. The transition between price controls is a unique event where revenue allowances, incentive arrangements, cost of capital assumptions and other key regulatory parameters may change significantly between business plans and final determinations. Final Determinations for ED2 differed materially from both business plans and Draft Determinations, demonstrating the potential scale of forecasting uncertainty during a price control reset.

Our experience of previous price control transitions is that setting tariffs using assumptions made before Final Determinations can lead to substantial corrections in subsequent years. While the revenue recovery mechanisms ensure eventual reconciliation, customers ultimately experience this through larger year-on-year tariff movements. This can create challenges for budgeting, customer forecasting, investment appraisal, commercial negotiations and long-term business planning. In our view, avoiding large corrective adjustments in subsequent years should be a key objective when considering arrangements for the start of ED3.

Benefits and risks of each solution:

The benefits of option 1 are it provides the greatest advance visibility of charges, maintains current industry arrangements and allows stakeholders the longest preparation period. The risks are charges would be based on business plan assumptions before Ofgem has completed its assessment, there is greater likelihood of material differences between forecast and final allowances. Increased risk of significant corrections in subsequent years resulting on high volatility in charges in the years following ED3.

The benefits of option 2 are it allows for marginally more up to date information than Option 1 and retains a relatively long notice period. The risks are it still relies on information prior to Draft and Final Determinations, meaning the risks identified for option 1 are still present.

The benefits of option 3 are it allows charges to reflect Draft Determinations which improves tariff accuracy compared with Options 1 and 2 and has the potential to reduce later corrections. The risks of option 3 are material elements of the ED3 allowance would remain subject to change, so tariffs could still require significant adjustment once Final Determinations are published.

The benefits of Option 4 are that charges would be based on Final Determinations and the most accurate available revenue allowances; it minimises forecasting uncertainty associated with the transition into ED3. It reduces the likelihood of substantial corrective adjustments in future years, resulting in smoother year-on-year charges. The risk of option 4 is that it is the shortest notice period for market participants, but we believe this is outweighed by the reduction in volatility. We believe there is significant value in ensuring charges are based on the final regulatory settlement rather than earlier forecasts.

Q6. Do you agree with Ofgem's initial assessment of the options for Year 2?

Yes, we support Ofgem's initial assessment that reducing the notice period from 15 months to 14 months for Year 2 is proportionate and appropriate. By the time Year 2 charges are being developed, the ED3 framework and revenue allowances will have been established through Final Determinations. A one month reduction in notice period therefore provides an opportunity to improve tariff accuracy while having only a limited impact on industry.

The benefits of a 15-month notice period are that it maintains consistency with current arrangements and provides maximum advance notice to stakeholders. The risks are charges would need to be developed using information available before Final Determinations. There is higher likelihood of mismatch between tariffs and final allowed revenues, and greater potential for future corrections and associated charge volatility.

The benefits of a 14-month notice period are it allows charges to be informed by Final Determinations, improves cost reflectivity and tariff accuracy. It reduces the potential for over and under recovery adjustments in later years and supports a smoother transition into the ED3 charging framework. The risks are a slightly shorter period for stakeholder planning and preparation.

Given the modest nature of the reduction and the benefits associated with using Final Determination data, we agree with Ofgem's assessment that a 14-month notice period represents an appropriate balance.

Q7. What was the impact of year-on-year variability in charges at the start of ED2?

As a representative of IDNOs, our experience is that the year-on-year volatility observed during the early years of ED2 created challenges for financial planning, budgeting and customer engagement.

DNOs observed materially greater variability in allowed revenues during the first two years of ED2 than in subsequent years, the transition between price controls introduces additional uncertainty around funding allowances, incentive mechanisms and financial parameters. The practical impacts of this volatility include increased complexity in annual budgeting and forecasting processes, reduced confidence in medium-term financial planning assumptions. Challenges when explaining material charge movements to customers and stakeholders, Difficulties in developing long-term business cases and investment assessments and greater uncertainty when assessing future revenues and network charging trends.

While the 15-month notice period provided earlier visibility of charges, in our view it did not prevent the consequences of the underlying forecasting uncertainty. Charges may have been known earlier, but subsequent corrections were still required once actual revenues and regulatory allowances became known. As a result, customers ultimately faced volatility regardless of the longer notice period.

Our experience therefore supports the principle that it is preferable to base tariffs on the most accurate information available, even where this requires a reduction in the charging



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notice period. We believe this approach is more likely to reduce future corrective adjustments and deliver greater stability in charges for customers over time.

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