

Distribution and Residual Charging

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Dear Distribution and Residual Charging team,

SSEN Distribution Response: Notice period options for network charges for the start of ED3

1. SSEN Distribution welcomes the opportunity to respond to Ofgem's consultation on the notice periods for Distribution Use of System charges for the first two years of ED3.
2. The transition between price controls creates a challenge for the setting of reliable tariffs since, under existing requirements, DNOs must provide suppliers and generators with 15-months' notice. This means that DNOs would have to publish final charges for 2028/29 in December 2026 – before Ofgem will have issued either its Draft or Final Determinations for ED3, finalised the ED3 Price Control Financial Model or implemented the relevant licence changes. Tariffs would therefore, necessarily, be based on forecasts and assumptions that can be reliably anticipated to differ from the final settlement with potential for material change.
3. There is a direct trade-off when setting tariffs between the length of notice and the reliability/accuracy of the tariffs being notified. This issue is particularly acute when transitioning between price controls, where allowed revenue forecasts are highly uncertain. While we recognise that earlier publication of 2028/29 tariffs would provide suppliers with more notice, it would also create elevated risk that the published charges do not reflect the final ED3 settlement. In our view, the interests of consumers are not best served by earlier notice when the underlying information is not sufficiently well developed to support an accurate and stable outcome.
4. It is important that Ofgem recognises that the consequences of setting tariffs inaccurately are not confined to the first year of ED3. or even first few years of ED3). Under the current 15-month notice period, the impacts ripple through multiple tariff years, creating avoidable volatility for suppliers and, ultimately, consumers. This is because any over-recovery or under-recovery is carried forward into the calculation of allowed revenue for subsequent years, including the applicable time-value-of-money adjustment. These correction amounts then interact with updated forecasts and further movements in allowed revenues in future years, as part of each annual charge setting cycle.
5. To provide a real example, based on the status quo of 15-months' notice, charges for 2028/29 would be set in December 2026 based on assumptions about allowed revenues and future demand. Whilst those assumptions (about 2028/29) would be updated in December 2027 using the final ED3 settlement, this would only affect charges for 2029/30 (since 2028/29 charges are locked). This would effectively mean the compound effect of

both charging years per the final ED3 settlement would affect tariffs in 2029/30 alone, meaning potential for a significant step-change relative to 2028/29.

6. The process of charge setting would be repeated in December 2028 (setting 2030/31 tariffs) and December 2029 (setting 2031/32 tariffs) – with a correction factor for prior year assumptions and updated forecasts for allowed revenue and consumption updated in each cycle. It would not be until December 2029 that we could fully reflect the complete set of outturn data for 2028/29 in 2031/32 tariffs.
7. It is important that Ofgem recognises that the 15-month notice period creates this effect, where there is both potential for uncertainty/volatility at the start of the complete cycle, and a significant lag on the true-up at the end of the cycle. This means that the true impact of assumptions made in 2026 about 2028/29, versus actuals in 2028/29, will not be fully corrected in tariffs until approximately 5 years after the initial charge setting process. This effect is a corrective ‘ripple’ with high potential for volatility early in the cycle.
8. It is, in our view, it is preferable to reduce risk at source by setting tariffs once the relevant regulatory information is clear rather than setting on a provisional basis and correcting through future charges that exposure consumers to volatility that is an artifact of the regulatory timetable. Greater accuracy at the outset should provide suppliers and consumers with a more stable path of charges across ED3, rather than certainty over an initial tariff that may subsequently require material correction.
9. Experience at the start of ED2 demonstrates that a 15-month notice period does not secure stability. Retrospective analysis by DNOs indicates that setting charges using more up-to-date information and a two-month notice period would have produced a significantly more stable allowed-revenue profile. There were also material movements between ED2 Draft and Final Determinations, demonstrating that tariffs based on Draft Determinations would continue to carry significant uncertainty.
10. Against that background, SSEN Distribution supports the response submitted by the Energy Networks Association on behalf of the DNOs collectively. Our strong preference is for Ofgem to adopt Option 4, under which final charges for 2028/29 and 2029/30 would be published by the end of January 2028. This would provide approximately two months’ notice for 2028/29 and 14 months’ notice for 2029/30. We recognise that any broader reduction to notice periods in ED3 would have to progress through the relevant DCUSA governance.
11. Option 4 provides the strongest basis for accurate, cost-reflective and stable tariffs. It would allow both years’ charges to reflect Ofgem’s Final Determinations, the updated ED3 Price Control Financial Model and the latest relevant inflation and charging inputs. It would also enable both sets of tariffs to be calculated, assured and communicated together.
12. We strongly oppose Option 3. Draft Determinations are not intended to represent the settled outcome of the price control. They are an important stage in an iterative process through which Ofgem’s initial assessment is tested against further evidence and representations from licensees and other stakeholders before Final Determinations are reached. The movement between Draft and Final Determinations is an inherent and expected feature of the regulatory process, rather than an exceptional risk. Setting final tariffs at that point would crystallise an interim regulatory position into customer charges before the underlying settlement has been concluded. We do not think it would be right to structurally expose customers to this known potential for volatility.

13. Option 3 should not be preferred simply because it represents a midpoint between longer and shorter notice periods. Ofgem's decision should reflect the option that best facilitates the relevant charging objectives and protects consumers' interests when considered in the round.
14. We recognise Ofgem's concern that a shorter notice period could affect supplier forecasting risk and risk premia. However, this must be assessed against the expected reduction in tariff volatility under Option 4 and the indicative tariff information suppliers would continue to receive through the Cost Information Review Pack process. Any conclusion that Option 4 would materially increase costs to consumers should be supported by clear evidence of the net effect.
15. Under option 4, preparatory indicative work could notionally be undertaken using Draft Determination information, while final calculations to inform tariff publications are reserved for the Final Determination outcome. DNOs would then require four to six weeks to understand the settlement, calculate and assure the tariffs, obtain internal approval and prepare charging statements for publication by the end of January 2028.
16. If Ofgem does not adopt Option 4, SSEN Distribution would prefer to retain the existing 15-month notice period rather than adopt Option 3. In that circumstance, Ofgem should ensure that DNOs are not exposed to penalty interest or any equivalent adverse consequence where over-recovery or under-recovery is demonstrably attributable to differences between the forecast ED3 settlement and Final Determinations.
17. Our overall view on the options is order of preference:
 - **Strongly support Option 4:** With 2028/29 and 2029/30 tariffs published by the end of January 2028 and based on Final Determinations, using up-to-date information on revenues, consumption and the latest inflation data.
 - **Oppose Option 1, but support as an alternative to Option 4:** With comprehensive protection against forecasting penalty consequences could be considered, but only in a scenario where Ofgem is not prepared to approve Option 4.
 - **Oppose Option 2:** Should not be considered, as it does not resolve the issues with uncertainty over accuracy.
 - **Strongly Oppose Option 3:** Which would base final tariffs on provisional regulatory information that can be reasonably anticipated to change and would structurally expose customers to this volatility.
18. Our responses to the consultation questions are enclosed.

Yours sincerely



Patrick Cassels

Head of Regulation and Commercial Operations

Responses to Consultation Questions

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

We believe that the four options have been presented to Ofgem for consideration per the Annex are the right options to consider, however, we strongly believe that the most appropriate solution for Year 1 of ED3 is Option 4. This is due to the increased allowed revenue accuracy it affords and reduced year-on-year volatility for suppliers and consumers in respect of DUoS charges which would otherwise occur under the other options.

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

Yes. We would require formal confirmation from Ofgem. DNOs should not incur penalty interest rates on any excess over/under-recoveries related to the differences in Allowed Revenues between Draft Business Plans and Final Determinations.

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?

Notwithstanding any separate DUoS modelling issues which could arise:

- Option 1 – at least one month
- Option 2 – at least one month
- Option 3 – at least two months, due to other annual submissions which coincide with this timeline such as Losses and the Revenue Audit and require the same personnel. Additionally, we would also be working on the calculation of tariffs for Year 2 of ED3 at this time so this reflects the fact that we would be calculating multiple tariff years in parallel.
- Option 4 – at least one month

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

A minimum of one month is required to ensure there is enough time to complete all assurance processes in accordance with Ofgem's own data assurance expectations.

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 believe Option 3 should be progressed. It appears this has been selected more so on the basis it's viewed as a 'happy medium' between DNOs and Suppliers views instead of focussing on which would better facilitate consumers and charging objectives in the round. We do not believe that this is the case.

- Ofgem states: *"Our initial view is that Option 3 could represent a pragmatic and balanced 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. Our initial view is that Option 3 would better facilitate the DCUSA Charging Objectives overall and be in the best interests of consumers,”

Whilst Ofgem’s assessment may be that Option 3 can better facilitate the DCUSA Charging Objectives when compared to Options 1 and 2, we do not agree this is the case when considered against Option 4 for the reasons outlined below:

Competition

- DCUSA Charging Objective 2 states: *that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences).*

Option 4 would facilitate competition to a greater extent as there would be less year-on-year volatility in DUoS charges if Allowed Revenues reflect Final Determinations instead of Draft.

Cost reflectivity

- DCUSA Charging Objective 3 states: *compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business.*

The key wording in respect of this objective is ‘*reflect the costs incurred or reasonably expected to be incurred*’ - we know Final Determinations for ED3 will be available in December 2027 and could differ significantly to Draft given historic precedent. Given the publication of 2028/29 tariffs could extend as late as October 2027 per Option 3, it seems amiss that Ofgem would forego increased allowed revenue accuracy for a 3-month DUoS tariff publication lead time over Option 4.

- Ofgem states that: “*Option 3 appears to both reduce the risk of higher costs for customers in the first year of ED3 and to reduce the potential for year-on-year variability in charges.*”

We do not agree this would be the case, as 2029/30 tariffs would reflect the true-up between Draft and Final determinations via the correction factor from 2028/29, in addition to the inherent potential for a step change in 2029/30 relative to 2028/29 (i.e. since there will be an amplified impact in Year 2 of ED3, as tariffs will be affected by both the final settlement for both Year 1 and Year 2).

DNO Business Development

- DCUSA Charging Objective 4 states: *that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business.*

The Final Determinations will reflect a DNO's approved ED3 allowances and this is therefore the most accurate data available on the developments in each DNO Party's Distribution Business. We believe it is reasonably practicable for tariffs to be set on this basis.

Efficiency

- DCUSA Charging Objective 6 states: *that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.*

Option 3 publication timelines could extend as late as October 2027 for Year 1, depending on availability of Draft Determinations. It is operationally inefficient for DNOs to be required to publish tariffs for Year 2 based on Final Determinations as little as three months later. Utilising the Final Determinations for both years and publishing tariffs at the same time is the most efficient option.

There is historic precedent of Ofgem approving and considering shorter DUoS notice periods under certain circumstances, e.g. in relation to Supplier of Last Resort and the Debt Relief Scheme. These changes pertain to amounts similar or even less than the differential we could see in Allowed Revenues between ED3 Draft Determinations and Final Determinations.

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.

Notwithstanding our preference to shorten the DUoS notice period indefinitely, we agree publication in January 2028 is the most appropriate option to allow for Final Determinations to be reflected in the allowed revenue calculations.

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?

N/A – this is a supplier directed question.