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To: [DUOS](#)
Subject: Consultation response - Ofgem Electricity distribution network charges: notice period options
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Dear Consultation Team,

Thank you for the opportunity to respond to the consultation on *Electricity Distribution Network Charges: Notice Period Options*. Please find below our comments and recommendations for consideration.

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

Severn Trent considers that an approach combining the early publication of indicative charges with publication of final charges at least five months prior to implementation would be appropriate for Year 1 of ED3. Such an approach would provide consumers with early visibility of likely charge movements while allowing DNOs to utilise more recent information when setting final tariffs. In our view, this would strike a more appropriate balance between charge accuracy and consumer certainty than options involving significantly shorter notice periods.

DUoS charges represent a material component of electricity costs for large non-domestic consumers. Advance visibility of expected charges is therefore important to support effective budgeting, forecasting, energy procurement and investment decisions. We believe that the publication of indicative charges significantly in advance of implementation, coupled with final charges being confirmed at least five months before they take effect, would achieve these objectives while still addressing many of the forecasting challenges faced by DNOs.

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

Severn Trent agrees that there are benefits associated with reducing the notice period where this enables charges to be based on more up-to-date information and

reduces forecasting uncertainty for DNOs.

However, we believe the assessment should place greater weight on the value of certainty for consumers. DUoS charges represent a material operating cost and are an important input into budgeting, forecasting and procurement decisions. A reduction in notice periods may improve charge accuracy, but this benefit must be weighed against the additional uncertainty created for consumers.

In particular, shorter notice periods are likely to increase forecasting risk within the electricity supply market. Many large consumers purchase electricity through fixed-price or structured supply contracts, under which suppliers are required to forecast future network charges and incorporate them into contract prices. Where DUoS charges remain uncertain until shortly before implementation, suppliers are exposed to greater pricing risk and are likely to reflect this through higher risk premia within supply contracts.

Whilst Severn Trent is not able to quantify the specific change in risk premia under Options 2, 3 and 4, our expectation is that the risk premium applied by suppliers would generally increase as notice periods reduce and future network charges become less certain. This may partially offset any benefits associated with improved charge accuracy.

For this reason, Severn Trent considers **Option 3** to provide the most appropriate balance between DNO forecasting requirements and consumer certainty. A five-month notice period would allow DNOs to utilise more recent information than under the current arrangements while still providing consumers and suppliers with sufficient visibility of costs to support budgeting, procurement and risk management activities.

We are less supportive of options that provide only a very short period of notice before implementation, as these would materially reduce cost visibility and increase uncertainty for consumers.

Q6. Which option do you prefer for Year 1 of ED3 and why?

Severn Trent would be supportive of a 14-month notice period for Year 1 of ED3. A longer notice period provides greater certainty for consumers, supporting budgeting, forecasting, energy procurement and investment decisions. While we recognise the benefits of using more up-to-date information when setting charges, we consider that the value of advance visibility of costs remains significant for large consumers. A 14-month notice period would provide sufficient time for consumers and suppliers to understand and manage network charge impacts, whilst helping to reduce the level of risk premium that suppliers may otherwise include within electricity supply contracts.

Q7. 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?

The year-on-year variability in network charges experienced around the start of ED2 created challenges for budgeting and forecasting activities. Variability in DUoS costs can have a material impact on expected electricity expenditure and can require significant revisions to forecasts and business plans.

However, from Severn Trent's perspective, the longer notice period provided valuable visibility of future charges and allowed sufficient time for the business to understand, model and plan for the impacts of those changes. While it did not eliminate the challenge associated with charge volatility, it did reduce the operational and financial impacts of that volatility by providing greater certainty and planning time. The longer notice period also supported energy procurement activities. Early visibility of future network charges assists both consumers and suppliers when entering into fixed-price or structured supply contracts. Where future network charges are uncertain, suppliers are likely to include a risk premium within contract prices to reflect that uncertainty. As a result, providing advance visibility of charges can help reduce overall costs to consumers.

For these reasons, Severn Trent believes that maintaining a reasonable period of advance notice continues to provide significant value, even where year-on-year charge variability remains. We therefore support an approach such as **Option 3**, which retains meaningful notice of final charges while allowing DNOs to utilise more current information when determining tariffs.

Kind regards,

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