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Dear Andrew

Notice period options for network charges for the start of ED3

Thank you for the opportunity to respond to the above consultation published on 9 July 2026, this should be regarded as a consolidated response on behalf of UK Power Networks' distribution licence companies: Eastern Power Networks plc, London Power Networks plc and South Eastern Power networks plc.

We believe that the Authority should issue a direction disapplying the standard 15-month notice period for distribution use of system (DUoS) charges for the charging years commencing 1 April 2028 and 1 April 2029. The timing of the ED3 Final Determinations means that DNOs will not have access to sufficiently certain allowed revenue information when charges would otherwise be required to be published by 31 December 2026. To ensure charges are based on robust and accurate inputs, we support option 4, the temporary reduction of notice periods to two months for 2028/29 and fourteen months for 2029/30.

There is a precedent for a temporary adjustment to charging notice periods at the start of a price control. At the beginning of RIIO-ED1, Ofgem delayed the implementation of the 15-month notice period in recognition of the uncertainty surrounding the final allowed revenue settlement. However, a similar request from DNOs at the start of RIIO-ED2 was not accepted and as a result charges were established using less certain revenue assumptions, contributing to greater year-on-year volatility. Experience from both RIIO-ED1 and RIIO-ED2 demonstrates that material differences can arise between business plans, Draft Determinations and Final Determinations. Basing charges on the most up-to-date and certain information reduces volatility and improves cost reflectivity for customers.

To provide additional context based on an example from the RIIO-ED2 period, using a simple average across our three licence areas, the Final Determination outcome implied allowed revenues which were c.10% more than the Draft Determination. If this scenario were to be repeated at the beginning of ED3, proceeding with option 3 would introduce a c.20% correction in pricing for the second year of the price control, without even considering movement in other factors such as financing cost or inflation movement. Naturally, some individual licence areas would see even



greater shifts. Using option 4 over option 3 removes this aspect of volatility by pricing the first year of ED3 four months later.

We believe that Ofgem should adopt option 4 so that DUoS charges are set post the publication of the Final Determinations. Consequently, the 15-months' notice would be reduced to:

- Two months for the first year of ED3 (2028/29 charges); and
- 14 months for the second year of ED3 (2029/30 charges).

Both sets of charges would be published no later than the end of January 2028.

Whilst not explicitly referenced in the consultation, it is important to consider also the notice periods for time-bands, so that any decision on the notice periods for publication of the tariffs is also reflected with an aligned decision on the notice period for the time-bands included in the tariff structure.

DCUSA Schedule 16 stipulates:

Clause 41A;

The DNO Party may only change distribution time bands with effect from 1 April and must provide a minimum of 15 months prior notice of such changes. However, where a change to distribution time bands is caused by the implementation of a change to this methodology, the requirement to provide a minimum of 15 months' notice prior notice will not apply.

Clause 41B;

Notice of changes to the distribution time bands should be given in the relevant charging statement, and such notice should appear in the same paragraph of the statement as the time bands that are being changed.

In drawing your attention to these associated aspects needed for a complete decision on notice periods, we trust you will also advise a derogation to these DCUSA obligations, as required, to keep in-step with your final decision on tariff notice period. Failure to do this risks constraining time-bands to their existing definitions until at least the end of the 2029/30 charging year.

We have set out our answers to your questions in the appendix to this letter. If you have any queries relating to our response or wish to discuss the feedback further, then please do not hesitate to contact Chris Ong (07875 110134 or chris.ong@ukpowernetworks.co.uk).

Yours sincerely



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Appendix

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

DNOs require clear and accurate allowed revenue inputs to set DUoS charges. For 2028/29, this information will not be available until publication of the ED3 Final Determinations, currently expected in late November 2027. Consequently, DNOs cannot start to accurately calculate charges before December 2027.

Publishing charges before final allowed revenue values are known would increase the likelihood of over- or under-recovery, requiring subsequent corrections through future charging years. This would introduce unnecessary volatility and reduce predictability for customers and suppliers as illustrated by the example in the covering letter. We therefore do not consider alternative notice-period arrangements to be preferable to option 4.

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

The letter of comfort issued for RIIO-ED2 provided a useful degree of regulatory assurance but this was in terms of compliance. It did not address the underlying issue that charges were established using revenue assumptions which subsequently changed materially following the Final Determinations.

While a similar letter could partially mitigate regulatory compliance uncertainty, it would not eliminate the risk of inaccurate tariff setting and the consequential impacts on customers. In our view, the most effective solution is to allow charges to be based directly on the ED3 Final Determinations through the adoption of option 4.

Q3. 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?

Although a significant number of inputs are required to calculate DUoS charges, the process can broadly be divided into two workstreams:

- Preparation of network and technical charging model inputs and;
- Calculation and validation of revenue and volume forecasts.

The technical work can largely be completed in advance. However, the final allowed revenue is a fundamental input and tariffs cannot be finalised until it is available. Following receipt of final revenue information, sufficient time is required to undertake model calculations, assurance activities, internal governance processes and board approval. We therefore consider a period of approximately eight weeks to be necessary before charges can be published. This assessment is broadly consistent across all options considered in the consultation.

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

Although we are a DNO, historically LDNOs have had a month to prepare their charging statements and publish their final charges from when they have been set by the DNO, which we believe would remain appropriate for all 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 premia could change under Options 2, 3 and 4 as compared with the baseline of Option 1.

Whilst we agree it is appropriate to defer the setting of tariffs until more information on the arrangements for ED3 is available, based on the analysis summarised in our covering letter, the level of volatility that remains in setting tariffs with knowledge only of Draft Determination outcomes is very high, using RIIO-ED2 as a baseline. Continuing with the example of RIIO-ED2, the adoption of option 4 instead of option 3 would avoid a 20% upward tariff correction in the second year of ED3 at the expense of approximately four months' less notice period. We believe that this presents a better overall proposition to suppliers and electricity consumers.

Evidence gathered through DCUSA Change Proposal DCP469, *Cross-Code Standardisation of Charging Arrangement Notice Periods*, indicates that supplier risk premia are influenced by both the length of notice periods and the expected volatility of network charges.

Suppliers have generally regarded detailed risk-premium calculations as commercially sensitive and have therefore been unable to provide quantitative evidence. Nevertheless, discussions within the working group suggested that shorter notice periods do not necessarily result in proportionately higher risk premia.

In practice, shorter notice periods will enable charges to be calculated using more accurate and up-to-date information, reducing forecasting errors and limiting subsequent tariff corrections. This reduction in volatility can offset a significant proportion of any perceived risk associated with reduced notice periods. Consequently, we expect any increase in supplier risk premia under options 2, 3 or 4 to be minimal.

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.

We agree with Ofgem's assessment of the Year 2 options. A one-month delay to publication of 2029/30 charges is proportionate given the transition to a new price control framework and the benefits associated with using more accurate revenue information. This is consistent with the analysis presented by DNOs during industry engagement and we do not believe that this approach would affect competition. Conversely, it would improve tariff accuracy and reduce the risk of subsequent corrections.

Adopting option 4 for both Year 1 and Year 2 would create a more stable transition into ED3, minimise the risk of volatility carrying forward into future charging years and provide greater certainty for customers and market participants.

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?

As a DNO, we believe suppliers and other market participants are better placed to provide direct evidence regarding the impact of charge variability on contractual arrangements and budgeting processes.

However, our analysis of RIIO-ED2 charging outcomes indicates that charges set using more accurate revenue information would have resulted in significantly lower year-on-year volatility. This would have provided greater predictability for suppliers and customers alike.

Looking ahead to ED3, ongoing economic and geopolitical uncertainty may give rise to substantial movements in inflation and other cost drivers. The impact of such changes is amplified when charges are established far in advance using forecast information. Shorter notice periods would reduce this exposure by allowing tariffs to be based on more current and reliable data.

Option 4 should be adopted because it allows charges to be set using Final Determinations, reduces forecast error, minimises over- and under-recovery, lowers tariff volatility, and ultimately improves outcomes for customers.