

Independent distribution network operators,
Southern Electric Power Distribution and other
interested parties

Email: duos@ofgem.gov.uk

Date: 14 January 2025

Dear Company Secretary,

Directions issued to Licensed Distribution Network Operators (LDNOs) to derogate from the Distribution Use of System (DUoS) charge setting notice period¹, issued under Section 2A Clause 19.1B of the Distribution Connection and Use of System Agreement (DCUSA)².

This letter contains a Direction to LDNOs³ to derogate from the DUoS 14-month charge setting notice period so that they may publish their final DUoS charges for 2026/27 for areas affected by an excessive surplus residual⁴ after 31 January 2025. The period of notice by which the LDNOs must publish their DUoS charges for these areas is reduced to forty days, however we expect the LDNOs to publish those charges as soon as reasonably practicable but no later than one month after the respective host distribution network operator (DNO) has published its own DUoS charges.

This Direction is given solely as a consequence of directions that we have already issued to three DNOs allowing a delay to publication of their own charges.⁵ The LDNO directions are attached as Annexes to this letter.

Background

¹ Read [Section 2A Clause 19.1A of the DCUSA](#)

² Read [Section 2A Clause 19.1B of the DCUSA](#)

³ LDNOs can either be an independent distribution network operator (IDNO) or a DNO operating outside of its own region.

⁴ Excessive surplus residual is explained in [our guidance for managing the effects of surplus residual charges](#). The areas affected for 2026/27 are those covered by the following DNO licensees: Electricity North West Limited, London Power Networks plc, Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc.

⁵ View [the requests to derogate from the DCUSA 15-month notice period and Ofgem decisions](#).

DNOs recover their allowed revenue from customers through DUoS charges. The methodologies for calculating these charges are the EHV Distribution Charging Methodology (EDCM) for the large, industrial customers connected at the highest voltages, and the Common Distribution Charging Methodology (CDCM) for the remaining customers. The CDCM and EDCM are detailed in the DCUSA document.

In the 2023 charge-setting period, we were made aware of circumstances in which following the EDCM would result in a negative value 'surplus residual'.⁶ In some cases, this would result in a fixed daily credit being paid to certain sites. We do not consider that a fixed daily credit for Final Demand Sites is cost-reflective nor conducive to competition in the generation and supply of electricity.

We are similarly aware of limitations with how the CDCM seeks to manage a surplus residual. A process exists to reduce some of the forward-looking charges (discounting fixed charges and unit rates) to bring revenue recovery down to the target value. However, an especially large surplus residual may result in the CDCM exhausting the ability to apply discounting and failing to produce a complete set of charges for some network users. We do not consider that compliance with the charging methodology should result in the failure to produce a set of final tariffs.

From the point of the issues within the charging methodologies becoming known to us, we have sought to identify a robust and practical solution.

In response to a surplus residual arising in the EDCM of two DNOs in the 2023 charge-setting period, for 2025/26 charges, we granted a direction to derogate to the affected DNOs to charge outside of the EDCM.⁷ We described these issues in greater detail in two explanatory notes⁸ published alongside our presentation to the March 2024 Charging Futures Forum.

In July 2024, we published a call for input⁹ to the sector, which detailed and sought feedback on our assessment of proposed approaches to manage the effects of surplus residual charges in both the EDCM and CDCM. We subsequently published our guidance for

⁶ Surplus residual is also understood as a 'negative residual'. This guidance document uses the term "surplus residual" for consistency with the DCUSA.

⁷ Read directions to derogate under SLC 13B Part E of the Electricity Distribution Licence relating to the EDCM for [National Grid Electricity Distribution](#) and [Scottish and Southern Electricity Networks](#).

⁸ Read the [explanatory note on the issue relating to the EDCM](#) and [the explanatory note on the issue relating to the CDCM](#) on the NESO website.

⁹ Read the [call for input on managing the effects of surplus residual charges](#).

managing the effects of surplus residual charges¹⁰ in November 2024, which outlined the process by which DNOs should submit requests for direction to derogate from the DCUSA 15-month notice period and relevant charging methodologies.

DNO directions to derogate

Following requests from three DNOs, in December 2024 we issued directions affecting DUoS charges in four licence areas: Electricity North West Limited, London Power Networks plc, Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc. This gave the DNOs relief from compliance with their tariff notice period of 15 months with the expectation that charges would instead be published by:

- Electricity North West Limited to publish no later than 31 January 2025
- London Power Networks plc to publish no later than 31 January 2025
- Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc to publish no later than 14 February 2025.

Those directions contained the reasons for our decisions.

Impact on LDNOs that publish charges for the DNO areas of Electricity North West Limited, London Power Networks plc, Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc

Under the DCUSA, LDNOs are required to provide 14 months' notice of their charges. This is one month after the DNOs publish their own tariffs. Any directions to DNOs to derogate from the 15-month notice period therefore has implications for LDNOs operating in those DNO areas.

We are issuing these directions (in the Annex below) to address the consequential impact of the delay to the publication of DNO charges on the ability of LDNOs operating in those areas to publish their own charges by 31 January 2025 (14 months' notice). The directions maintain the one-month period between DNO and LDNO tariff publication.

There are two separate directions: one for IDNOs and another for DNOs operating out of area. As the only DNO operating out of area in the affected areas, the second direction applies only to Southern Electric Power Distribution plc's Embedded Distribution Networks.

¹⁰ Read [our guidance for managing the effects of surplus residual charges](#).

We consider this to be a proportionate approach in the circumstances as the delay to the publication of LDNOs' tariffs is a direct consequence of the delay to DNO tariffs.

Decision

For the reasons set out above we have decided to grant the LDNOs a direction to derogate from the 14-month DUoS charge setting notice period as set out in the Annex below. The directions issued under Section 2A Clause 19.1B of the DCUSA is attached as an Annex to this letter.

This letter constitutes notice under 49A of the Electricity Act 1989.

If you have any queries or comments in relation to the issues raised in this letter, please contact us by email at duos@ofgem.gov.uk

Yours faithfully,

Andrew Malley

Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose

Annex A

Direction issued to derogate from the Distribution Use of System (DUoS) charge setting notice period, issued under Section 2A Clause 19.1B of the Distribution Connection and Use of System Agreement (DCUSA) to:

1. Advanced Electricity Networks Ltd.
2. Aidien Ltd.
3. Aurora Utilities Ltd.
4. Eclipse Power Networks Ltd.
5. Energy Assets Networks Ltd.
6. Esp Electricity Ltd.
7. Fulcrum Electricity Assets Ltd.
8. Green Generation Energy Networks Cymru Ltd.
9. Harlaxton Energy Networks Ltd.
10. Independent Distribution Connection Specialists Ltd.
11. Independent Power Networks Ltd.
12. Indigo Power Ltd.
13. Last Mile Electricity Ltd.
14. Leep Electricity Networks Ltd.
15. Mua Electricity Ltd.
16. Optimal Power Networks Ltd.
17. Stark Infra-Electricity Ltd.
18. The Electricity Network Company Ltd.
19. Uk Power Distribution Ltd.
20. Utility Assets Ltd.
21. Vattenfall Networks Ltd.

Whereas:

1. Each of the companies to whom this Direction is addressed (each an "IDNO") holds a licence granted, or treated as granted, pursuant to section 6(1)(c) of the Electricity Act 1989 (the "Distribution Licence").
2. SLC 20.3 of the Distribution Licence requires each Licensee to comply with (among other codes) the Distribution Connection and Use of System Agreement ("DCUSA"). Clause 19.1A of the DCUSA requires each LDNO to provide notice of their charges 14 months in advance of the relevant charging year. Clause 19.1B permits each Licensee to not have to comply with the notice period set out in Clause 19.1A,

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where the Authority issues a direction to that effect. In such a circumstance, the notice period will be forty days.

Now therefore:

The Authority hereby directs:

Pursuant to Section 2A Clause 19.1B of the DCUSA, that the periods of notice described in Clause 19.1A shall not apply to the IDNO for tariffs that apply to the DNO areas affected and that the notice period shall instead be forty days for 2026/27 tariffs. The areas affected are those covered by the following DNO licensees: Electricity North West Limited, London Power Networks plc, Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc. We expect the IDNO to publish those charges as soon as reasonably practicable and no later than one month after publication of tariffs by each of the affected host DNOs.

For the avoidance of doubt, the IDNO should meet the usual tariff setting deadline of 31 January 2025 for all other DNO areas.

This Direction shall have effect from the date stated below.

Dated 14 January 2025

Andrew Malley

Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose

Annex B

Direction issued to Southern Electric Power Distribution plc for its Embedded Distribution Networks to derogate from the Distribution Use of System (DUoS) charge setting notice period, issued under Section 2A Clause 19.1B of the Distribution Connection and Use of System Agreement (DCUSA)

1. Southern Electric Power Distribution plc, to whom this Direction is addressed (a "Licensee") holds a licence granted, or treated as granted, pursuant to section 6(1)(c) of the Electricity Act 1989 (the "Distribution Licence").
2. SLC 20.3 of the Distribution Licence requires each Licensee to comply with (among other codes) the Distribution Connection and Use of System Agreement ("DCUSA"). Clause 19.1A of the DCUSA requires each LDNO to provide notice of their charges 14 months in advance of the relevant charging year. Clause 19.1B permits each Licensee to not have to comply with the notice period set out in Clause 19.1A, where the Authority issues a direction to that effect. In such a circumstance, the notice period will be forty days.

Now therefore:

The Authority hereby directs:

Pursuant to Section 2A Clause 19.1B of the DCUSA, that the periods of notice described in Clause 19.1A shall not apply to the Licensee's Embedded Distribution Networks for tariffs that apply to the DNO areas of Electricity North West Limited and London Power Networks plc, and that the notice period shall instead be forty days for 2026/27 tariffs. However, we expect the Licensee to publish those charges as soon as reasonably practicable and no later than one month after publication of tariffs by each of the affected host DNOs.

For the avoidance of doubt, the Licensee's Embedded Distribution Networks should meet the usual tariff setting deadline of 31 January 2025 for all other DNO areas.

This Direction shall have effect from the date stated below.

Dated 14 January 2025

Andrew Malley
Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose