



Making a positive difference
for energy consumers

DCUSA Panel Chair, DCUSA Panel,
Electricity Distribution Network Operators,
Electricity Suppliers and other interested parties

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Dear Panel Chair,

Authority decision to 'send back' DCUSA Change Proposal DCP437 "To Shorten the DUoS Pricing Notice Periods"

On 10 October 2024, the Change Report and Change Declaration for DCUSA Change Proposal DCP437 was submitted to the Authority¹ for decision. We have decided that we cannot properly form an opinion on DCP437 as submitted to us and are therefore sending the Proposal back for further work.

Background

Final Distribution Use of System (DUoS) Charges are set with a deadline of 31st December for the prices due for implementation in April 15 months later. DUoS charges are levied by DNOs to recover their allowed revenues² and are calculated according to the Charging Methodologies as approved by the Authority. DNOs invoice Suppliers using the calculated DUoS charges, which the Supplier in turn incorporates within a customer's final supply bill.

¹ References to the "Authority", "Ofgem", "we", and "our" are used interchangeable in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

² Allowed revenues are determined by the RIIO process. View further [information on Network price controls 2021-2028 \(RIIO-2\)](#) on the Ofgem website

New licence conditions were introduced for RIIO-ED2³, resulting in DNOs being required to submit a version of the Price Control Financial Model (PCFM)⁴ with their proposed allowed revenue to Ofgem. Ofgem require submission in early December, no less than 14 days before they publish their tariffs, currently on 31 December. The PCFM is published by Ofgem at the end of November. DNOs may then be directed to alter their inputs by Ofgem and are obligated to reflect changes to PCFM in their tariff calculations⁵.

If Ofgem directed updates from DNOs 14 days before their tariffs are published, DNOs would have 5 working days to fully recalculate, affirm, prepare documentation, sign off and publish their tariffs. It is noted that this process currently takes most of December. Additionally, the change proposal states that DNOs cannot sign off their inputs until Ofgem have confirmed whether they require any changes to said inputs. As a result, even if no changes are required, DNOs are working with limited time to publish their tariffs in accordance with their obligations. These are shortened timescales in comparison to the process prior to the license changes introduced for RIIO-ED2.

The Proposal

DCP437 was raised by National Grid Electricity Distribution on 13 February 2024. The Proposal intends to shorten the DUoS Pricing Notice Periods from 15 to 14 months, for DNOs, and from 14 to 13 months, for IDNOs and out of area DNOs so there is a longer period between the submission of the Price Control Financial Model (PCFM), where Ofgem have the option to make changes to DNOs' allowed revenue at short notice, and the publication of the prices. This would be implemented by change to wording in DCUSA section 2A 19.1.1 (Distributor to Supplier / Generator relationship) to state a notice period of 14 months for DNOs, and change the wording in section 2A 19.1.2 to state a notice period of 13 months for IDNOs and DNOs acting outside of that DNO Party's Distribution Service Area. As a result of this change, DUoS charges would be set one month later than they currently are. Consequently, Suppliers could only incorporate confirmed DUoS charges into the contracts they offer one month later than they currently are able to.

We have considered the issues raised by the Proposal and Change Declaration, and have concluded that we currently do not have sufficient information to assess the full merits and

³ [Decision on modifications to the Price Control Financial Instruments and Licence conditions for Gas Transmission, Gas Distribution and Electricity Transmission | Ofgem](#)

⁴ For each Regulatory Year, the RIIO-ET2 PCFM provides for the calculation of, 'Live' Calculated Revenue, the value of Adjusted Revenue and Allowed Revenue, and can be read about further in the [ED2 Price Control Financial Handbook](#)

⁵ [Standard conditions of the Electricity Distribution Licence, Condition 13, Part E Approvals process](#) sets out the provision under which the Authority can direct changes to the Charging Methodology

impact of the Change Proposal. We require additional detail to be provided on the impact on consumers, to comprehensively consider all aspects of the proposal.

Reasons for our decision

We have identified the following deficiency in the Change Report.

The change report sets out that the DCP437 workgroup noted that the proposed change to notice period length would result in Suppliers waiting a month longer for DUoS charges to be set. As a result, some fixed term contracts would have an increased period in which DUoS charges are uncertain. It was noted that Suppliers may choose to apply a risk premium to account for this uncertainty. The cost of which would depend on the size and level of uncertainty. The Increased risk premiums resulting from greater uncertainty of DUoS charges, pass through as a higher cost to the consumer, through increased prices within their contracts.

We recognise that the Working Group explored the amount of time that a Supplier would face uncertain DUoS costs when pricing a fixed term contract. However, we believe that a more detailed understanding of how consumers will be impacted is essential for our full assessment, balancing all merits and impacts of the Change Proposal. We would like to gain a quantitative insight into the potential increase in risk premia, alongside how the premia will affect the bills of consumer groups (e.g. as defined by the nature of their contract, contract length and other characteristics). We would also welcome any additional qualitative evidence on the distributional impacts. Without further understanding the consumer impact to assess alongside the other merits and limitations set out in the Change Declaration, we do not believe it is possible to make an informed decision on DCP437.

Direction

We therefore direct that further detail is provided on the consumer impacts provided and considered by the working group, to address this deficiency. A revised Change Declaration should include quantified impact of the potential increased risk premia on the bills of different consumer groups. If information is not available, illustrative figures based on well-justified assumptions should be provided.

After addressing the issues discussed above and revising the Change Declaration accordingly, the DCUSA Panel should re-submit it to us for decision as soon as reasonably practicable.

Yours sincerely,

Andrew Malley

Head of Electricity Network Charging

Signed on behalf of the Authority and authorised for that purpose