

# Ofgem Update DCUSA Stakeholders

October 2025

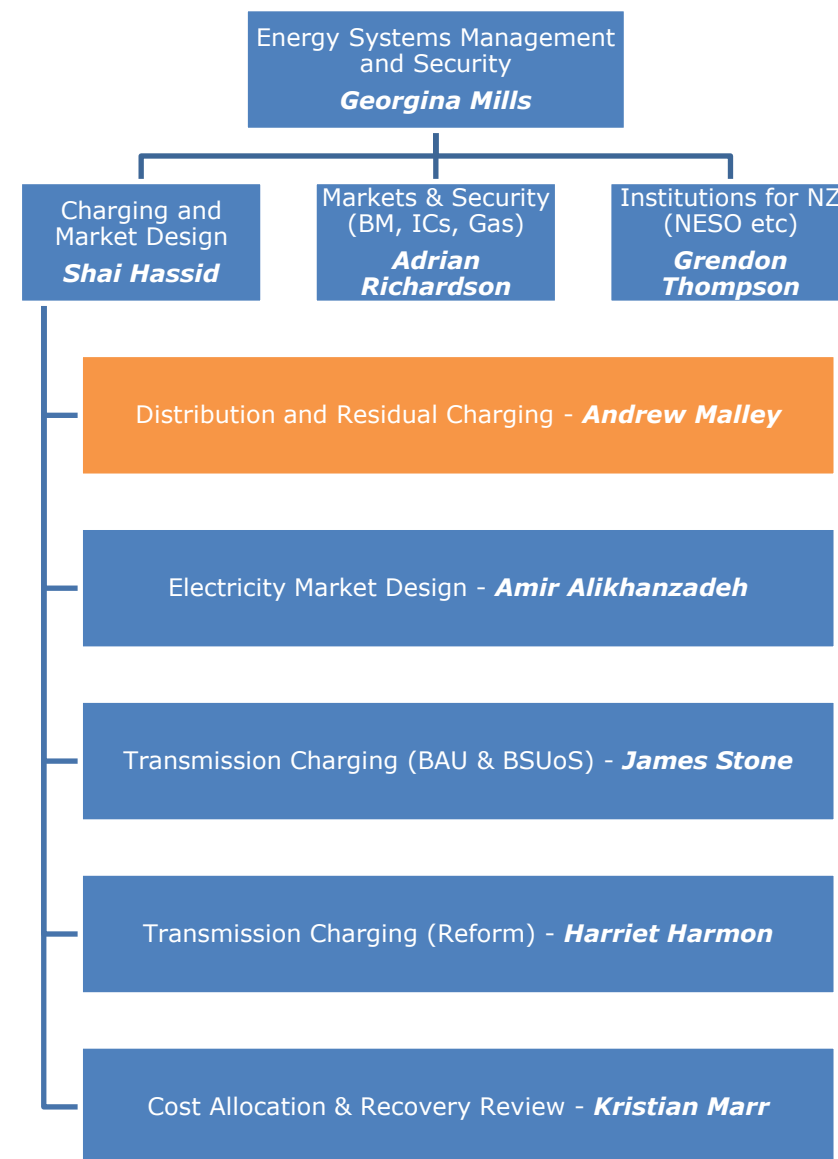


The Distribution and Residuals team cover a range of issues relevant to DCUSA stakeholders including:

- Distribution charging modifications for both UoS and Connections, including residuals;
- Transmission charging modifications relating to residuals;
- Determinations and derogations for DUoS and distribution licence issues;
- BAU charging – charging statements, TPA approvals etc;
- Complex site and IDNO issues;
- Practical / charging impacts of new policy cost recovery;
- DUoS SCR;
- DUoS links to
  - Retail and price cap;
  - Price controls;
  - Cost Allocation & Recovery Review;
  - REMA Market Design Work – including TNUoS;
  - Flexibility; and
  - Connection reform.

Our team sits within the Charging and Market Design portfolio, so we are closely linked with work on REMA and TNUoS reform. Our team covers a mix of BAU and policy work, as well as support within Ofgem on emerging issues.

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## Recap – Charges in context 25/26 and 26/27

Network charges typically account for c.25% of bill,  
but c.50% of standing charge

	25/26			26/27		
	Forward-looking charges <i>Signal costs</i>	Residual charges <i>Recover allowed revenues</i>	Total	Forward-looking charges <i>Signal costs</i>	Residual charges <i>Recover allowed revenues</i>	Total
<b>Transmission charges TNUoS</b>	Demand £0.14bn	Demand £3.8bn	<b>£5.1bn</b>	Demand £0.15bn	Demand £7.5bn	<b>£8.9bn</b>
	Generation £1.2bn	Generation £0bn		Generation £1.5bn	Generation £0bn	
<b>Distribution charges DUoS</b>	Demand £6.4bn	Demand £0.5bn	<b>£6.8bn</b>	Demand £6.7bn	Demand £0.3bn	<b>£7.0bn</b>
	Generation £-144m	Generation £0bn		Generation £-143m	Generation £0bn	
<b>Balancing Services BSUoS</b>	Demand £10-15/MWh			Demand £11-14/MWh		

- TNUoS cost reflective charges use capacity charges for generators, with critical peak “Triad” for large demand, volumetric element for small or domestic users. Most revenue comes from demand fixed charges, with one band for domestic and tiered bands for non-doms.
- DUoS cost reflective charges use capacity charges for large users, and typically ToU credits for generators. Demand users have ToU volumetric elements. Smaller proportion of revenue comes from demand fixed charges, again with one band for domestic and tiered bands for non-doms.
- BSUoS is volumetric on final demand volumes.
- All numbers are initial rough estimates

Government published their Summer REMA update confirming Zonal pricing would not be going ahead, instead focusing on [reformed national pricing](#). Following this, we published an [open letter](#) (with further CfI planned) which set out possible ways forward on TNUoS, including:

- Making charges more predictable – including the possibility of fixing charges, or a large proportion of them, at the point of investment to limit year-on-year variation;
- Charges that facilitate the delivery of a strategic plan – such as a methodology that incentivises project alignment with SSEP;
- Review of demand and storage charging – ensuring efficient choices of location, without harmful impacts on other users;
- Transitional arrangements – considering trade-offs for existing/post-investment decision assets.

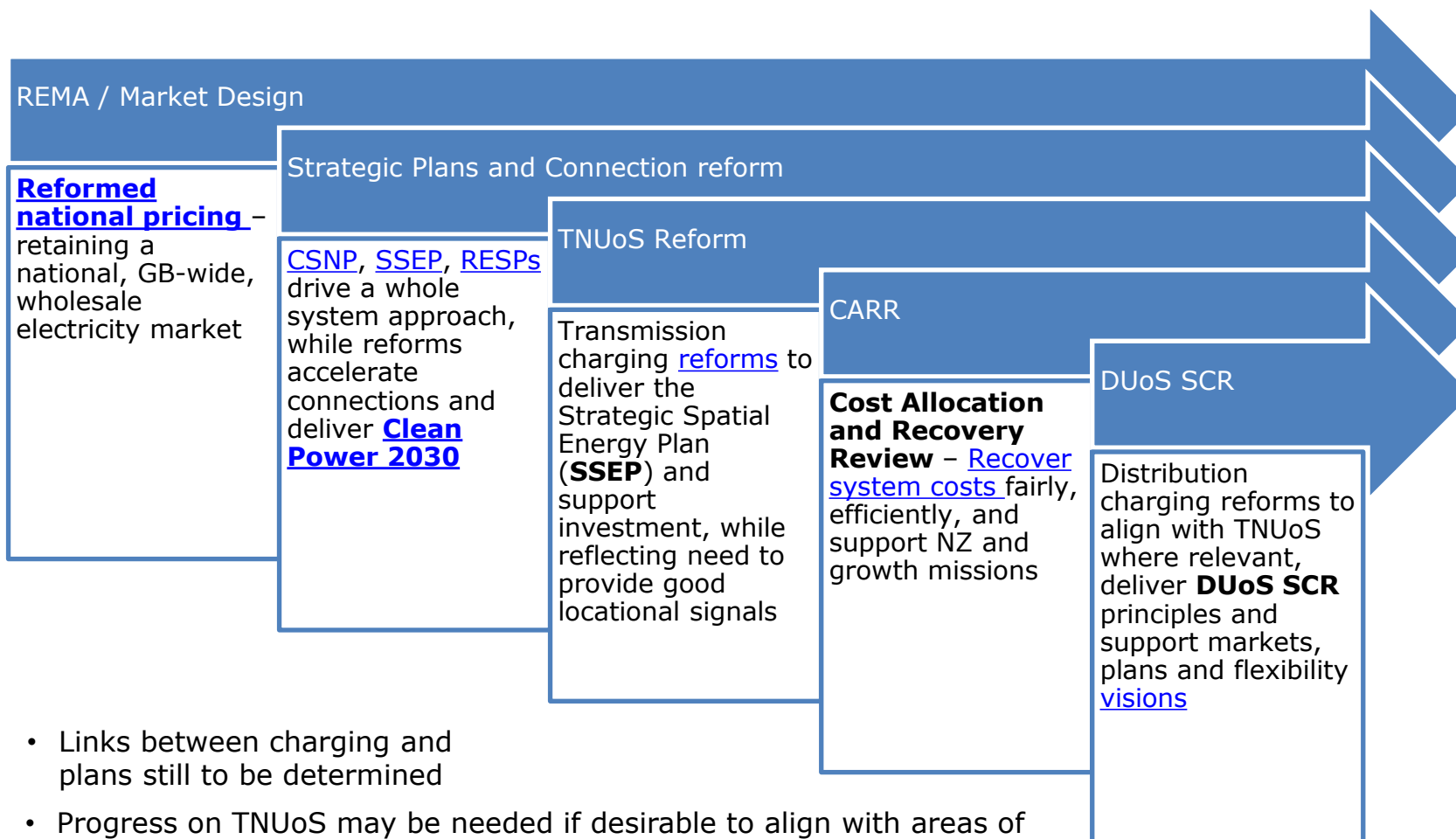
The distribution system's role in the transition is huge, with the [Annex](#) to the [CP2030 Action Plan](#) expecting 36GW of embedded solar, 13GW of embedded onshore Wind and 11GW of embedded batteries. In addition, flexibility is likely to have a strong distribution focus. We think the DUoS SCR remains the best way to deliver changes to distribution charges, as the existing principles\* are broad and remain relevant. We also note links to Cost Allocation and Recovery Review work, which we expect to have its own governance structure.

## Big questions

- Which elements of the possible TNUoS reforms should be **mirrored** in distribution charging, and which require **distribution-specific** responses?
- How do we make decisions on mods that relate to ongoing reforms? Our initial view is to address urgent **"defect"** issues as they arise in a pragmatic manner via the code modification process, while leaving **"design"** changes for the SCR.

\*SCR Principles

- Arrangements support efficient use and development of network capacity
- Arrangements reflect the needs of consumers as appropriate for an essential service
- Any changes are practical and proportionate as well as future proof by being robust to uncertain future developments on the system



- Links between charging and plans still to be determined
- Progress on TNUoS may be needed if desirable to align with areas of DUoS. Final model will need to align with cost review.
- Some existing elements of DUoS could be incorporated in national or regional arrangements, and some national level arrangements may become more local

## Possible DUoS implications and questions

- Reformed National Pricing could require TNUoS and other signals to provide locational signals and incentivise new users to connect in line with spare capacity or strategically planned investment
- Connection process reform underway. Govt REMA update notes an interest in understanding potential “deepening” of connection charges. What is the read-across to distribution connection charging and ongoing work?
- Segmentation of DUoS – what parts need to align with TNUoS, and which need to reflect the qualities of distribution or the essential service required by users at distribution level?
- Cost recovery, a major part of DUoS, will need to align with CARR aims and outputs – how best to sequence this?
- Links between DUoS signals and plans needs to be considered, and role of flexibility at distribution remains important.

## Is alignment needed for T&D, and on what criteria?

*Examples for purposes of discussion only – not policy, just a demonstration of the ways in which the charging landscape can be divided up*

<b>Today</b>	<b>TNUoS</b> Zonal level long run marginal cost signals to Generation and Demand	<b>EHV DUoS</b> Site / grouped site level long run marginal cost signals to Generation and Demand	<b>HV/LV DUoS</b> DNO level long run marginal cost signals with ToU Demand and ToU credits for Generation
<b>Sophistication?</b>	<b>Sophisticated users</b> Aligned approach across T&D? Example – aligned BM entry levels?	<b>Moderately sophisticated users</b> at D-level users exposed to some, but not all signals?	<b>Core users</b> Core users exposed to fewer signals
<b>Role?</b>	<b>Large Generation</b> Aligned T/D approach?	<b>Community or deeply embedded generation</b> Exposed to some, not all signals	<b>Demand</b> Exposed to relevant demand signals
<b>Plan alignment?</b>	<b>Aligned to plan</b>	<b>Partly aligned to plan</b>	<b>Not aligned to plan</b>

The system is transitioning to a cleaner, more secure and resilient energy system with a reduced reliance on fossil fuels. These changes will see more investment to upgrade and maintain infrastructure and are likely to lead to big changes to the makeup of energy system costs. Over the next few years, significant investment in networks is expected, and this investment is likely to add to costs. Higher volumes on the electricity system will follow, but potentially not for some time, and a number of strategic changes are taking place on the gas system.

At the same time, new technologies and uses are changing how and when consumers use energy, and the impacts of these changes raise important questions about how the energy system should be paid for by consumers. Ofgem are undertaking a Cost Allocation and Recovery Review to better understand how we recover costs from consumers now, and how this might need to change in the future to deliver a system that is fair and efficient and support net zero and economic growth. This review will consider things like:

- Future energy system development and its consequences for energy bills;
- The distribution of costs among customers, including regional variation;
- Variations of allocation of costs between different types of users, and the knock-on impacts on decarbonisation and growth.

DUoS exists to recover costs and provide signals to users to use the system efficiently, so we expect the CARR to have big impacts on the direction of DUoS charges in the coming years. This means we will need to work hard to co-ordinate with work on the DUoS SCR and other reforms.

Users can respond to the Call for Input here:

[Energy system cost allocation and recovery review - Ofgem - Citizen Space](#)

[Connections reform](#) is a key project and is essential to speed up the process of connecting to the grid and align with the government's mission on Clean Power 2030. Ofgem have a dedicated Connections team working on this, but we have a number of links to this work:

- Cost recovery for additional costs stemming from the connections reform stage-gate process
- Discussions with ENA and DNOs on reinforcement costs for distribution connections driving transmission reinforcements, now moving ahead as an industry modification DCP461
- Future connections charging, including for strategic connections – making a connections regime that supports strategic and regional planning and helps users make efficient choices

We have had discussions with a number of users in the past few months on connections issues relating to the T/D boundary. Modifications have been raised for CUSC and DCUSA to look at this issue and we intend to engage where we can.

Over the last few years there have been lots of developments in the IDNO space, and we have published our [views](#) on some of these. We received useful feedback from industry and set out that we think there is room for further industry development, particularly around charging. We welcome feedback from industry and users and are particularly interested to hear views on the role IDNOs can play in achieving the aims set out across the various reform programmes underway at the moment.

Local balancing and complex sites remains an area of interest for the team, and we are keen to hear from stakeholders who have views on the role of these areas in future DUoS arrangements and in achieving aims such as CP2030, and the relationship to the RESPs and SSEP.





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