

DCUSA Consultation		At what stage is this document in the process?
DCP 477 Managing the effects of excessive surplus residual revenue in the EDCM Date Raised: 08/06/2026 Proposer Name: Emma Clark Company Name: Scottish and Southern Electricity Networks Party Category: DNO		01 - Change Proposal
		02 - Consultation
		03 - Change Report
		04 - Change Declaration
Purpose of the Change Proposal The purpose of this Change Proposal ("CP") is to include within DCUSA Schedule 17 solutions, previously approved by Ofgem through derogation, which can be applied by affected DNOs in instances of excessive surplus residual revenue within the Forward Cost Pricing (FCP) Extra High Voltage Distribution Charging Methodology (EDCM) model at a tariff set case.		
	This document is a Consultation issued to DCUSA Parties and any other interested parties in accordance with Clause 11.14 of the DCUSA, seeking industry views on this CP. You are invited to consider the questions set in section 9 of this Consultation and submit comments using the form provided to dcusa@electralink.co.uk. The deadline for responses is 31 July 2026.	
	Impacted Parties Suppliers, DNOs, IDNOs, CVA Registrants	
	Impacted Clauses Schedule 17 (New Paragraphs)	

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Timetable		
Activity	Date	
Initial Assessment Report	17 June 2026	
Consultation Issued to Parties	17 July 2026	
Change Report Approved by Panel	16 September 2026	
Change Report Issued for Voting	16 September 2026	
Party Voting Closes	30 September 2026	
Change Declaration Issued	1 October 2026	

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1 Summary

What?

- 1.1 To include within the DCUSA legal text Schedule 17, solutions (previously approved by Ofgem) which can be applied by affected DNOs in instances of excessive surplus residual revenue within the Forward Cost Pricing (FCP) Extra High Voltage Distribution Charging Methodology (EDCM) model at a tariff set case. This is intended to be an interim solution to avoid the need for annual derogation requests until such time the DUoS SCR (or another project/Change Proposal) has progressed a more robust and enduring solution.

Why?

- 1.2 Since late 2023 (2025-26 tariff set case), two out of three DNOs who apply the FCP charging methodology have experienced at some point excessive surplus residual revenue¹. This is demonstrated through credit fixed charge rates (p/MPAN/day) for Final Demand customers which Ofgem agreed is not cost-reflective.

How?

- 1.3 In November 2024, Ofgem published a guidance document titled 'Managing the effects of surplus residual charges guidance' outlining the intervention options affected DNOs should apply to the 2026-27 FCP EDCM models if excessive surplus residual revenue occurred (option naming below is as per the Ofgem document):
- Option 1: Reapportion negative fixed charges for final demand consumers within a residual band to the capacity charge for the same group of consumers. To be used when the principal cause of excessive surplus residual is a reduction in allowed revenue.
 - Option 3: Carry over locational components and network use factors from previous years. To be used when the principal cause of excessive residual surplus is an increase in forward-looking charges.
- 1.4 In February 2026 for 2027/28 Tariff setting purposes, an additional intervention option was approved for implementation by Ofgem. This was driven by the Authorised Network Model failing to converge due to the scale of load growth in the Holistic Transition scenario and the significant number of new EDCM customers forecast to connect.
- NGED applied the load growth assumptions used for the 2026/27 charging year within the 2027/28 Authorised Network Model, resulting in no excessive surplus residual revenue in the EDCM.

Who?

- 1.5 As this proposal relates to EDCM DUoS charges, it may impact DNOs, Suppliers, IDNOs, CVA registrants and Consumers.

2 Governance

- 2.1 This CP is a Part 1 Matter as it may have a significant impact on the interests of electricity consumers and may discriminate in its effects between one Party (or class of Parties) and another Party (or class of Parties).

¹ Surplus residual revenue occurs when the revenue collected from forward-looking network charges exceeds the revenue permitted under the price control. 'Excessive' is demonstrated by negative fixed charges or the failure to produce a set of tariffs.

3 Why Change?

- 3.1 This change is required to prevent the need for repeated future derogation requests, which will improve efficiency and prevent unnecessary delays in setting charges.
- 3.2 It is intended that this solution be temporary and should be replaced following a review of these arrangements, through the DUoS SCR or another Ofgem-led initiative.

4 Working Group Assessment

- 4.1 The Working Group noted that the three solutions contained within DCP 477 have previously been approved by Ofgem through the derogation process and have been used by DNOs to resolve instances of excessive surplus residual revenue within the EDCM.
- 4.2 The Working Group's initial view is that there may be benefit in incorporating these solutions directly into the DCUSA, providing greater certainty, consistency and efficiency by removing or reducing the need for future derogation requests where similar circumstances arise.
- 4.3 The Working Group is seeking views on whether these previously approved solutions should now be formalised within the DCUSA.

Question 1	Do you agree with the proposal to add the three solutions, previously approved through derogations, to the DCUSA? Please provide your rationale.
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- 4.4 The Working Group developed draft legal text which sets out the circumstances in which each solution may be applied, based on the primary driver of the excessive residual.
- 4.5 The Working Group's initial view is that the selection of a solution should be linked to the underlying cause of the excessive surplus residual revenue and the behaviour of the EDCM model in the relevant year.
- 4.6 The Working Group is seeking views on whether the proposed criteria are appropriate, sufficiently clear and capable of supporting consistent application across affected DNOs.

Question 2	Do you agree with the Working Group's assessment of criteria for when each solution, or multiple solutions, can be used by the DNO? Please provide your rationale.
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- 4.7 The Working Group recognises that the three solutions included within this CP have been developed to address an immediate and known issue that has previously required derogations.
- 4.8 The Working Group's initial view is that this change proposal should remain narrowly focused on codifying those existing, previously approved solutions within the DCUSA, thereby providing a practical and timely mechanism that can be utilised where similar circumstances arise in future.
- 4.9 The Working Group does not consider the proposal to be the appropriate vehicle for the development, assessment or implementation of entirely new approaches, particularly given the accelerated timetable being pursued and the temporary nature of the solutions being formalised.
- 4.10 However, the Working Group acknowledges that stakeholders may identify alternative approaches which could provide a more enduring or efficient solution to the underlying issue of excessive surplus residual revenue within the EDCM. Whilst such alternatives are not currently being considered within the scope of this CP, the Working Group considers it helpful to capture stakeholder views on any potential future developments.
- 4.11 The Working Group therefore invites stakeholders to identify any alternative solutions that they believe should be explored through a future Change Proposal or be considered by the Authority as part of any wider review of distribution charging arrangements. These suggestions will not form part of the

assessment of DCP 477 itself but will be recorded in the Change Report for future consideration by Parties (one of which would need to raise a new Change Proposal) and the Authority.

Question 3	Are there any alternative solutions that should be developed through a future Change Proposal or by the Authority as part of a future SCR? Please provide your rationale.
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5 Relevant Objectives

Assessment Against the DCUSA Objectives

5.1 For a DCUSA CP to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. This CP is being assessed against the DCUSA Charging Objectives.

	DCUSA Charging Objectives	Identified impact
☒	1. That compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	Positive
☒	2. That compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)	Positive
☒	3. That compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business	Positive
☐	4. That, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	Neutral
☐	5. That compliance by each DNO Party with the Charging Methodologies facilitates compliance with the EU Internal Market Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators; and	Neutral
☒	6. That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	Positive

5.2 The majority of the Working Group believes that, relative to the status quo, DCUSA Charging Objectives 1, 2, 3 and 6 are better facilitated by this change as the intervention options ensure DNOs will be able to calculate a set of EDCM tariffs in instances where the model fails to run, and also ensures there would be no negative fixed charges which are not cost-reflective.

Question 4	Do you believe the proposed solution better facilitates the DCUSA Charging Objectives? Please provide your rationale.
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6 Impacts & Other Considerations

Impacts on any Significant Code Review (SCR) or other significant industry change projects

6.1 The Proposer believes that this CP has impacts on the DUoS SCR.

Impacts on other Codes

6.2 The Proposer does not believe this CP impacts upon any other codes.

Consumer Impacts

- 6.3 The Working Group considered whether an impact assessment should be undertaken, noting that the proposal does not introduce a new charging methodology or new intervention mechanisms. Rather, the proposal seeks to formalise, within the DCUSA, a number of solutions that have previously been reviewed and approved by the Authority through the derogation process and subsequently implemented by affected DNOs. The Working Group's initial view is therefore that this CP primarily codifies existing arrangements rather than creating new consumer impacts.
- 6.4 The Working Group further noted that the applicability of the proposed solutions is dependent upon specific circumstances arising within an individual DNO's EDCM model and that the most appropriate intervention is determined by the underlying driver of the excessive surplus residual revenue. As a result, the Working Group considers it difficult to undertake a meaningful quantitative assessment of consumer impacts that would be representative of all future applications of the proposal. The Working Group also noted that, in the absence of the solution, affected DNOs would likely continue to rely on derogation requests in similar circumstances.
- 6.5 The Working Group's view, therefore, is that a formal impact assessment is unlikely to provide additional value in assessing this CP. However, the Working Group welcomes stakeholder views on whether there are any consumer impacts, benefits or risks arising from the proposal that should be considered as part of the assessment of this change.

Question 5	Are there any consumer impacts, benefits or risks arising from the proposal that should be considered as part of the assessment of this CP?
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Environmental Impacts

6.6 In accordance with DCUSA Clause 10.4.5A, we have assessed whether there would be a material impact on greenhouse gas emissions if this CP were implemented. We have not identified any material impact on greenhouse gas emissions from the implementation of this CP.

Are there any wider industry impacts?

6.7 The Proposer does not believe this impacts on any wider industry developments.

Question 6	Aside from the DUoS SCR, are you aware of any other wider industry projects or initiatives that this CP may impact upon?
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7 Implementation

7.1 It is proposed to implement this CP as soon as possible in advance of 2028/29 tariff setting. The Working Group determined the date that this CP needs to be implemented by, in order to avoid the need for derogations, is by no later than 5 November 2026.

Question 7	Do you agree with the Working Group's view that this CP should be implemented by no later than 5 November 2026?
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8 Legal Text

- 8.1 The Working Group developed the legal text found in Attachment 2.
- 8.2 The Working Group discussed whether paragraphs 18.22 to 18.24 of the proposed legal text should sit within the existing "Demand Scaling" section of the DCUSA or whether a new subsection or standalone heading would be more appropriate. Working Group members noted that the solutions being codified may extend beyond demand scaling activities alone and therefore questioned whether the current heading accurately reflects the scope of the proposed new provisions. No consensus was reached, and the Working Group agreed that the final placement and section heading should be considered further during consultation and legal review.

Question 8	Do you think paragraphs 18.22 to 18.24 should reside under the Demand Scaling header, as currently drafted, or somewhere else (e.g., under a new heading)? If somewhere else, please provide suggestions.
Question 9	Do you have any comments on the legal text?

9 Consultation Questions

- 9.1 The Working Group is seeking industry views on the following consultation questions:

No.	Question
1.	Do you agree with the proposal to add the three solutions, previously approved through derogations, to the DCUSA? Please provide your rationale.
2.	Do you agree with the Working Group's assessment of criteria for when each solution, or multiple solutions, can be used by the DNO? Please provide your rationale.
3.	Are there any alternative solutions that should be developed through a future Change Proposal or by the Authority as part of a future SCR? Please provide your rationale.
4.	Do you believe the proposed solution better facilitates the DCUSA Charging Objectives? Please provide your rationale.
5.	Are there any consumer impacts, benefits or risks arising from the proposal that should be considered as part of the assessment of this CP?
6.	Aside from the DUoS SCR, are you aware of any other wider industry projects or initiatives that this CP may impact upon?
7.	Do you agree with the Working Group's view that this CP should be implemented by no later than 5 November 2026?
8.	Do you think paragraphs 18.22 to 18.24 should reside under the Demand Scaling header, as currently drafted, or somewhere else (e.g., under a new heading)? If somewhere else, please provide suggestions.
9.	Do you have any comments on the legal text?

10 Attachments

- 10.1 Attachment 1 – DCP 477 Consultation Response Form
- 10.2 Attachment 2 – DCP 477 Draft Legal Text
- 10.3 Attachment 3 – DCP 477 Change Proposal Form