



Making a positive difference
for energy consumers

Company Secretary
National Grid Electricity Distribution
Avonbank
Feeder Road
Bristol
BS2 0TB

By email Simon Yeo

Email: duos@ofgem.gov.uk

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Dear Company Secretary,

Direction issued to National Grid Electricity Distribution (East Midlands) Plc (EMID) and National Grid Electricity Distribution (West Midlands) Plc (WMID) to derogate from the Distribution Use of System (DUoS) Extra High Voltage (EHV) Distribution Charging Methodology (EDCM), issued under Standard Licence Condition (SLC) 13B Part E of the Electricity Distribution Licence¹

This letter contains a Direction to National Grid Electricity Distribution's (NGED) Electricity Distribution Licence areas EMID and WMID (the licensees) to derogate from the EDCM for 2027/28 charges, so that it can produce a complete set of DUoS charges with no fixed credits. The direction allows NGED to amend the charging methodology for the licensees. The Direction allows NGED to amend the EDCM by applying the load growths used to create 2026/27 tariffs with the 2027/28 Authorised Network Model.²

We consider it is in the interests of its customers overall, and in particular its EHV customers to allow it to produce a complete set of charges for all customers and mitigate

¹ Read [SLC 13 of the Electricity Distribution Licence](#)

² Authorised Network Model means the model that represents the Distribution licensee's entire EHV network.

what would otherwise have been an exceptional level of volatility of fixed charges for some EHV customers. The Direction is attached as an Annex to this letter.

1. Background

Distribution network operators (DNOs) recover their allowed revenue from customers through DUoS charges. The methodologies for calculating these charges are the 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 Distribution Connections and Use of Systems Agreement (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'.³ 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 consumers⁴ is cost-reflective nor conducive to competition in the generation and supply of electricity.

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.⁵ We described these issues in greater detail in two explanatory notes⁶ published alongside our presentation to the March 2024 Charging Futures Forum.

In July 2024, we published a Call for Input⁷ 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 managing the effects of surplus residual charges⁸ in November 2024, which outlined the process by which DNOs should submit requests for directions to derogate from the DCUSA 15-month notice period and relevant charging methodologies.

³ Surplus residual is also understood as a 'negative residual'. This guidance document uses the term "surplus residual" for consistency with the DCUSA.

⁴ By final demand consumers, we mean consumers at Final Demand Sites. DCUSA defines a Final Demand Site as (a) Domestic Premises; or (b) a Single Site (as defined in Schedule 32) at which there is Final Demand, as determined in accordance with Paragraphs 1.10 and 5 of Schedule 32.

⁵ 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](#)

⁶ 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.

⁷ Read the [Call for Input on managing the effects of surplus residual charges](#)

⁸ Read [our guidance for managing the effects of surplus residual charges](#)

In winter 2024/25 we issued directions to three DNOs to derogate from the notice periods and charging methodologies in accordance with our published guidance, relating to 2026/27 charges.⁹

In October 2025, we approved DCUSA code modification proposal DCP450, which introduces a new step in the charging methodology that allows DNOs to uniformly reduce an input when the CDCM surplus residual adjustment process fails.¹⁰ This ensures that CDCM tariffs can be produced without requiring derogations from licence conditions. No similar proposal has so far been raised to codify the approach for dealing with surplus residuals in the EDCM.

In December 2025, we directed two DNOs to derogate from the 15-month DUoS charge setting notice period.¹¹ This allowed them time to confirm an excessive residual surplus, apply intervention options, conduct an impact assessment, and submit a derogation request from the charging methodology to Ofgem, if required. The notice period derogations covered both the CDCM and EDCM owing to the interactions between the two methodologies.

2. NGED's issue and requested direction to derogate

NGED has finalised its proposed 2027/28 charging figures for the EMID and WMID licensees and has confirmed the occurrence of excessive surplus residual charges in its tariffs as a result of applying the EDCM to its licence areas. In the absence of a means for dealing with a EDCM surplus residual being codified in the DCUSA, NGED initially sought a resolution based on our published guidance from 2024.

As the issue of NGED being unable to produce a set of EDCM tariffs for EMID is different than that foreseen in our guidance, NGED investigated alternative interventions to produce tariffs while maintaining stability. NGED wrote to us on 13 and 23 February 2026 to request a direction to derogate from its charging methodology for WMID and EMID.

NGED explained that the excessive surplus residual was caused by the high load growth associated with the Holistic Transition Pathway.¹² For EMID and WMID, NGED applies the

⁹ The directions can be found here: [Managing the effects of surplus residual charges: derogation requests and directions | Ofgem](#)

¹⁰ [DCP450 Distribution Connection and Use of System Agreement \(DCUSA\) changes | Ofgem](#)

¹¹ View [the requests to derogate from the DCUSA 15-month notice period and Ofgem decisions](#)

¹² The Holistic Transition Pathway is one of the Future Energy Scenarios 2025: Pathways to Net Zero that provides an independent view of a range of future pathways for the whole energy system, exploring a range of routes to net zero in 2050 for energy demand and supply. See: [Future Energy Scenarios \(FES\) | National Energy System Operator](#)

Forward Cost Pricing (FCP) variant of the EDCM charging methodology. The FCP methodology is based on allocating costs to EHV network users based on the projected load growth and the future network investments (aggregated up into network branches) that are expected to be triggered in their local region of the network. This is done according to the results of a power flow analysis of the network. DCUSA requires that the load data used in the power flow analysis is based on network demand data from the DNO's Long Term Development Statement. The forecast, from the price setting period, is derived from the Holistic Transition Pathway.

For the affected licensees, NGED has proposed a derogation to the EDCM to allow it to apply the load growths used to create 2026/27 tariffs with the 2027/28 Authorised network model.

3. Our assessment

We have considered NGED's proposal for the licensees to derogate from the EDCM, against the assessment criteria in our guidance for managing the effects of surplus residual charges, which has been developed in accordance with the DCUSA charging objectives¹³, our principal objective and wider statutory duties.

We note that NGED's proposal to apply the load growths used to create 2026/27 tariffs with the 2027/28 Authorised network model was not in our published Guidance. However, NGED has explained that owing to scale of the surplus residual, the change to the software used to create its network models and the number of new customers forecast to connect in the two areas, the existing options within the Guidance were insufficient to address the level of surplus residual in its circumstances. We consider that the assessment criteria developed in our Guidance remains appropriate for assessing any such intervention to address an excessive surplus residual.

DNO Obligations

Without intervention, DUoS tariffs would not be produced for EMID EDCM customers. By not being able to charge users of the network in accordance with the charging methodology, EMID may significantly under-recover revenue, which could prevent or disrupt its ability to safely and efficiently discharge its obligations regarding network operation, improvement, and maintenance. In contrast, allowing the intervention would better facilitate its ability to recover a correct amount of revenue and allow billing of all customers.

¹³ The [DCUSA Charging Objectives are in clause 3.2 of DCUSA](#) and are set out in [Condition 22A of the Distribution Licences](#)

Competition

For EMID, without intervention, it would not be able to bill suppliers in line with its charging methodology. This would result in adverse effects for suppliers with EMID EHV customers, whereas an equivalent supplier who did not have such customers in their portfolio would not be impacted. This would create a distortion to competition where the supply of electricity to some EHV customers would carry undue administrative and operational risks for some suppliers to network users, compared to other suppliers. With the proposed intervention, as EMID would be able to charge all relevant suppliers using standard processes, the undue administrative and operational risks associated with supplying EHV customers as in a case of non-intervention would be mitigated.

For both EMID and WMID, negative fixed charges for demand could lead to distortive incentives for customers to hold or increase agreed capacity where it is not needed, which will not lead to efficient system use and could be harmful for competition if it prevents the efficient allocation of capacity to other users. By addressing this issue, the intervention better facilitates this objective. Given the principal cause of the issue and its scale, NGED has chosen an appropriate approach to addressing negative fixed charges.

Cost-reflectivity

For EMID, an inability to charge EHV users of the network due to the failure of the methodology to produce final tariffs would suggest that affected users have no bearing on the long-run incremental costs of the network. We do not consider such an outcome to be cost-reflective.

For both EMID and WMID, the intervention relies on historical load growth data, which reduces cost reflectivity of the model inputs. However, it does remove negative fixed charges, which we have stated are not cost reflective. While not performing strongly against this objective, the intervention is the most appropriate option given the scale of the EDCM negative residual and absence of other approaches that would be capable of addressing the issue in the circumstances.

DNO business development

The status quo would result in either a failure to produce tariffs or negative fixed charges on the basis of models that were not designed to accommodate such load growth inputs. The intervention relies on some historical inputs which do not reflect licensees' DNO business development. However, it is the most appropriate intervention in the circumstances.

Efficiency

As described in our rationale for derogation against the DCUSA charging notice period¹⁴, we consider that the changes to DNO (licensees) and supplier processes are an additional administrative step required for a suitable assessment of the circumstances by the licensees, the proposal of a path to resolution of the issue, and our assessment of that proposal. We consider that this process has been followed effectively, mitigating the aforementioned risk to the normal operation of licensees and supplier business operations.

Principal Objective and Statutory Duties

We have assessed the proposed intervention in line with our Principal Objective and statutory duties. The status quo is not in the interests of current and future consumers as it could result in a failure to produce tariffs or allow a potential windfall gain for some customers at the expense of others.

We also believe that this intervention promotes competition in a way that protects consumers' interests. It does so by mitigating against potential distortions to competition related to negative fixed charges for EDCM customers distorting incentives to hold or increase capacity.

We recognise that the intervention changes tariffs for more than just the directly affected network users, but consider that such consequences are proportionate and reasonable in light of the potential disruption to the normal functioning of the DNO (licensees), suppliers, and network users.

4. Potential for an enduring solution

We note that this is the third time in as many years that we have issued a methodology derogation for the EDCM for some DNOs. We acknowledge the concerns raised by some DNOs that the current approach is not sustainable in the longer term. While a more fundamental review of the EDCM through the DUoS Significant Code Review¹⁵ (SCR) may provide a longer-term solution, it is not practical for the SCR to address this issue ahead of the charge setting deadline for 2028/29 charges in less than 12 months' time. This is particularly so given the dependencies of the SCR on other interrelated, ongoing reform, such as that for transmission charging under reformed national pricing.¹⁶

Therefore, as we noted in our 2024 Guidance document, we would like to work with industry on any modification proposal that seeks to address this issue on an enduring basis. We would expect any modification proposal for an enduring solution would consider and

¹⁴ Read [Ofgem direction to NGED to derogate from the DCUSA notice period](#)

¹⁵ [Distribution Use of System Charges: Significant Code Review update | Ofgem](#)

¹⁶ [Reforming network charging signals to align with the future design of Great Britain's electricity system | Ofgem](#)

seek to address the root cause of the issue. Nonetheless, we consider this current derogation activity is appropriate in the circumstances of addressing this issue in a consistent and timely manner for 2027/28 tariff setting.

5. Decision

For the reasons set out above we have decided to grant NGED's licence areas EMID and WMID a direction to derogate from the EDCM for the 2027/28 charging year. The Direction issued under SLC 13B Part E of the Electricity Distribution Licence is attached as an Annex to this letter.

The Direction allows NGED to amend the EDCM by applying the load growths used to create 2026/27 tariffs with the 2027/28 Authorised network model for its EMID and WMID licensees.

Any new EDCM connections between the publication of charges and the 2027/28 charging year should also have their charges set on an equivalent basis. For the avoidance of doubt, and save as set out in this Direction, in all other respects the charges should be calculated in accordance with the EDCM.

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

Direction issued to National Grid Electricity Distribution (East Midlands) Plc (EMID) and National Grid Electricity Distribution (West Midlands) Plc (WMID) to derogate from the DUoS EDCM issued under SLC 13B Part E of the Electricity Distribution Licence

1. EMID and WMID to whom this Direction is addressed (the "Licensees") holds a licence granted, or treated as granted, pursuant to section 6(1)(c) of the Electricity Act 1989 (the "Distribution Licence").
2. SLC 13B Part E of the Distribution Licence states the Authority may (after consulting the licensee and, where appropriate, any other Authorised Electricity Operator likely to be materially affected) give a direction ('a derogation') to the licensee that relieves it of its obligations under Part A of this condition in respect of such elements of the EDCM, to such extent, for such period of time, and subject to such conditions as may be specified in the direction.

Now therefore:

Pursuant to SLC 13B Part E of the Distribution Licence, for 2027/28 charges the Licensee may apply the load growths used to create 2026/27 tariffs with the 2027/28 Authorised network model for the EDCM for both EMID and WMID.

This Direction shall have effect from the date stated below.

Dated 24 February 2026

Andrew Malley

Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose