

Consultation

Statutory consultation on the electricity distribution standard and special licence conditions – reasons and effect

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We are consulting on proposed changes to the electricity distribution licence. These changes are proposed to clarify and, where necessary, correct and remedy, the standard and special licence conditions that were implemented for the electricity distribution network companies to give effect to our RIIO-ED2 settlement.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations).

If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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1. Introduction

Section summary

This section sets out the purpose of our consultation, the relevant stakeholders, a summary of the changes we are proposing and the proposed process for consulting upon, and subsequently implementing, our proposals.

What are we consulting on?

- 1.1 We are consulting on our proposed modifications to the licence conditions for the electricity Distribution Network Operators (**DNOs**). These modifications are required to correct a number of errors that have been identified, as well as improving the clarity of the licence.
- 1.2 We are also proposing modifications to the licence conditions following our reconsideration in the matter of the allocation of NPgN's and NPgY's (collectively **NPg's**) total modelled costs in accordance with the CMA's Order¹ on the Energy Licence Modification Appeal 2023².
- 1.3 The modifications we are proposing to make are published alongside this consultation.
- 1.4 Within this document, we set out the reasons why we propose to make these changes and their intended effect.

Context and related publications

- 1.5 We are proposing changes primarily to the following electricity distribution network operator licences³:

¹

https://assets.publishing.service.gov.uk/media/650977fca41cc3000d5613d7/21_September_2023_Final_Order_-_RIIO-2_ED2_Appeal_-_version_for_publication_.pdf

² <https://www.gov.uk/cma-cases/energy-licence-modification-appeal-2023>

³ Note that Standard Licence Conditions may apply to licensees other than those listed and some of the Associated Documents published alongside this consultation apply to other network licensees subject to the RIIO Price Control.

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Acronym	Group	Licensees (and acronym)
ENWL	Electricity North West Limited	Electricity North West Limited (ENWL)
NGED	National Grid Electricity Distribution ⁴	National Grid Electricity Distribution (West Midlands) plc (WMID) National Grid Electricity Distribution (East Midlands) plc (EMID) National Grid Electricity Distribution (South Wales) plc (SWALES) National Grid Electricity Distribution (South West) plc (SWEST)
NPg	Northern Powergrid	Northern Powergrid: Northeast (NPgN) Northern Powergrid: Yorkshire (NPgY)
SPEN	SP Energy Networks	SP Energy Networks: Distribution (SPD) SP Energy Networks: Manweb (SPMW)
SSEN	Scottish and Southern Energy Networks	Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution (SSEH) Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution (SSES)
UKPN	UK Power Networks	UK Power Networks: London Power Networks (LPN) UK Power Networks: South East Power Networks (SPN) UK Power Networks: Eastern Power Networks (EPN)

1.6 There are two different types of licence conditions to which we are proposing changes. We have summarised these below.

Standard Licence Conditions (SLCs)

1.7 SLCs set out the duties and obligations applicable to all holders of a particular type of licence. All electricity distribution licences contain SLCs. The SLCs include some obligations related to Ofgem’s performance-based price control model (RIIO) that do not adjust allowed revenue.

1.8 The SLCs are grouped into different parts/sections that either apply or do not apply according to the activities carried out by the licence holder.

⁴ Western Power Distribution (WPD) became part of the National Grid Group following its acquisition in 2021. It was renamed National Grid Electricity Distribution (NGED) from 21 September 2022.

Special Conditions (SpCs)

1.9 SpCs are conditions that apply to a particular licensee. However, the wording is often the same for all licensees of a particular type.

Summary of our proposed changes

1.10 The proposed licence modifications include amendments to the current licence conditions to improve the clarity and readability of the licence. We are also making some amendments to the licence conditions to correct obvious errors that have been identified since implementation.

1.11 The other modifications that we are proposing to the licence conditions are a result of the CMA's Order following the appeal by NPg, requiring our reconsideration and redetermination of our approach to allocating NPg's total modelled costs. Modifications to the other DNOs' licences are required as a result of changes to NPg's allowances, as NPg's allowances are set out in some of the DNOs' SpCs.

1.12 We have published, alongside this consultation:

- the SpCs for the DNOs with tracked changes where there are amendments to existing conditions;
- the SLCs, including tracked changes where there are amendments to existing conditions; and
- the Price Control Financial Model (**PCFM**) where there are amendments to allowance values.

1.13 We created a Licence Drafting Working Group (**LDWG**) in July 2023 consisting of members of the Ofgem team and DNO representatives. This group has met twice to review and develop the licence conditions in light of the proposed modifications highlighted in paragraph 1.10.

Consultation stages

1.14 Following collaboration through the LDWG, we are publishing this statutory consultation on our proposed changes to both the Standard Licence Conditions and Special Licence Conditions of the Distribution Licence.

1.15 From the date of publication of this consultation, we invite stakeholders to respond to the questions laid out within 28 days (i.e. by the 30th of November) 2023).

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- 1.16 Following receipt of these views, we will decide whether any further changes are required based on the representations made.
- 1.17 We will publish our Final Decision in due course which will summarise the views of stakeholders and will set out our assessment and decision regarding these views.
- 1.18 Following publication of our Final Decision, the Licence modifications will take effect following the statutory 56-day period. We expect this will be in early 2024.

2. Proposed changes to the Special Licence Conditions

Section summary

This section summarises the changes we propose to make to the SpCs. The structure of this section sets out the condition in question, the reason for the proposed change and the effect of implementing our proposed solution.

Q1. What are your views on the proposed changes to the SpCs listed in this chapter?

Introduction

2.1 This section sets out the reasons for and effects of each of the SpCs that we propose to modify because of the errors that have been identified and to improve the clarity of the licence. For the avoidance of doubt, the proposed modifications to the SpCs following our reconsideration and redetermination of our approach to allocating NPg's total modelled costs in accordance with the CMA's Order on the Energy Licence Modification Appeal 2023 are covered in Chapter 4.

Special Licence Conditions

SpC 1.2 Definitions and references to the Electricity Distributors	
Type of change	Amendment to existing licence condition
2.2 The reasons for amending this condition are to correct a number of errors, update current definitions where these have become outdated, remove definitions which are no longer used and insert a new definition required for a further change proposed in this consultation.	
2.3 The effect is to:	
<ul style="list-style-type: none">• update references within definitions to other documents such as Associated Documents or industry codes;• update the definitions to reflect the other amendments proposed in the rest of the SpCs.	

SpC 2.3 Return adjustment	
Type of change	Amendment to existing licence condition
2.4 The reasons for amending this condition are to amend incorrect cross-references and address a number of formatting issues.	

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2.5 The effects are to:

- Update the reference in SpC 2.3.8 to refer to the correct part of the condition.
- Update the reference in SpC 2.3.9 to refer to the correct part of the condition.
- Change the formatting to improve readability.

SpC 3.1 Special Condition 3.1 Allowed Network Asset Risk Metric expenditure (NARMt)	
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Type of change	Amendment to existing licence condition
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2.6 The reason for amending this condition is due to a spelling error.

2.7 The effect is to:

- Correct the spelling of “Justified” in SpC 3.1.39.

SpC 3.2 Uncertain Costs Re-openers	
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Type of change	Amendment to existing licence condition
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2.8 The reasons for amending this condition are to amend a reference to an expression so as to make it clear that it is not a defined term, to amend an incorrect a cross-reference and to address a number of formatting issues.

2.9 The effects are to:

- Update the reference in SpC 3.2.59 by decapitalising the current drafting of “Data Services” as, in this context, the reference is not to the defined term.
- Update the reference in SpC 3.2.88 to refer to the correct part of the condition.
- Change the formatting to improve readability.

SpC 3.3 Evaluative Price Control Deliverables	
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Type of change	Amendment to existing licence condition
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2.10 The reason for amending this condition is to address a number of formatting issues.

2.11 The effect is to:

- Change the formatting to improve readability.

SpC 3.5 PCB Interventions volume driver (PCBt)	
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Type of change	Amendment to existing licence condition
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2.12 The reason for amending this condition is to remove a sentence which is incorrect.

2.13 The effect is to:

- Remove the sentence “This is in addition to ex ante allowances.” from SpC 3.5.2, so as to clarify that funding to carry out PCB Interventions is not in addition to ex ante allowances.

SpC 3.9 Load Related Expenditure volume drivers (SRVDt and LVSVDt)	
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Type of change	Amendment to existing licence condition
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2.14 The reasons for amending this condition are to amend and correct formulae, to round the values in Appendix 3 to two decimal places and to address a number of formatting issues. Please note that further changes have been made due to the CMA appeal which are set out in Chapter 4 of this consultation.

2.15 The effects are to:

- Remove an erroneous “R” from the definition of SRUC, and input a subscript t for SRVD and SRUC, resulting in correct formulae.
- Update the contents of the table in Appendix 3 to include two decimal places, in line with other tables in the licence.
- Change the formatting to improve readability.
- To amend the figures according to the outcome of the CMA appeal as per Chapter 4 of this consultation.

SpC 3.10 Allowed Expenditure for 1-in-20 Severe Weather Event (OTSWt)	
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Type of change	Amendment to existing licence condition
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2.16 The reason for amending this condition is that the current heading refers to “Weather Events” which is incorrect.

2.17 The effect is to:

- Update the heading to refer to a “Weather Event”, bring the heading in line with the OTSW_t term and reflecting the changes proposed to the definitions – i.e. that the term refers to single events not multiple events.

SpC 3.11 Net to gross adjustment for Load Related Expenditure (NGLREt)	
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Type of change	Amendment to existing licence condition
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2.18 The reason for amending this condition is to correct incorrectly capitalised terms.

2.19 The effect is to:

- Decapitalise some of the references to “Gross Load” to avoid confusion with “Gross Load Related Expenditure” which is a separate defined term and is not applicable in these cases.

SpC 3.13 – Smart Street Mechanistic Price Control Deliverable (SSMPt) (ENWL ONLY)	
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Type of change	Amendment to existing licence condition
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2.20 The reasons for amending this condition are to clarify that the value of SSMP_t is derived at the end of the Price Control Period and to address the fact that the current drafting does not reference to Appendix which includes the value of the term.

2.21 The effect is to:

- Reword the condition with a clarification that the term is derived at the end of the Price Control Period and include a reference to Appendix 1 of SpC 3.13.

SpC 3.15 – Special Condition 3.15 LineSIGHT Mechanistic Price Control Deliverable (LMP_t) (ENWL ONLY)	
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Type of change	Amendment to existing licence condition
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2.22 The reasons for amending this condition are to clarify that the value of LMP_t is derived at the end of the Price Control Period and to address the fact that the current drafting does not reference to Appendix which includes the value of the term.

2.23 The effect is to:

- Reword the condition with a clarification that the term is derived at the end of the Price Control Period and include a reference to Appendix 1 of SpC 3.15.

SpC 4.3 Broad measure of customer service output delivery incentive (BMCSt)	
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Type of change	Amendment to existing licence condition
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2.24 The reasons for amending this condition are due to some of the values in the Appendices being incorrect and to address a number of formatting issues.

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2.25 The effect is to:

- Correct some of the licence values in Appendices 2, 4, 7, 9, 11, 13 and 15.
- Change the formatting to improve readability.

SpC 4.4 Interruptions incentive scheme output delivery incentive (IQI)	
Type of change	Amendment to existing licence condition

Type of change	Amendment to existing licence condition
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2.26 The reasons for amending this condition are to correct erroneously capitalised terms, ensure that references to the Electricity (Standards of Performance) Regulations 2015 include any amendments made to them, update the maximum payments that can be made to customers for Severe Weather Event, update the severe weather exceptionality threshold and to address a number of formatting issues.

2.27 The effects are to:

- Remove capitalised references to "Restoration" as this is a defined term which is not applicable in the context of this condition.
- Introduce a new defined term "Reliability Regulations" (defined as "means the Electricity (Standards of Performance) Regulations 2015 as amended from time to time") to ensure that any changes in the Regulations automatically apply. This change ensures that in the event of a change in the Regulations, a modification to the Licence is not required.
- Remove the reference to a maximum payment of £700 for a Severe Weather Event and replace it with a maximum of "the prescribed cap (as set out in the Reliability Regulations", mirroring the new approach in the Regulations.
- Add an additional column in Appendix 10 to show the severe weather exceptionality threshold from 1 September 2023 onwards.
- Change the formatting to improve readability.

SpC 4.5 Major connections output delivery incentive (MCI)	
Type of change	Amendment to existing licence condition

Type of change	Amendment to existing licence condition
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2.28 The reasons for amending this condition are to update a reference in the current licence to the "RIIO-ED2 Major Connections Incentive Guidance Document", which has been superseded by the publication of a more up to date document, to clarify the requirements regarding the Major Connections Customer Satisfaction Survey set out in SpC 4.5.10(b) and to address a number of formatting issues.

2.29 The effects are to:

- refer to the “Major Connections Governance Document” throughout the condition.
- Clarify the references to the content of the Major Connections Governance Document in which the broader terms of the Major Connections Customer Satisfaction Survey exist.
- Change the formatting to improve readability.

SpC 4.6 Consumer vulnerability output delivery incentive (CVIt)	
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Type of change	Amendment to existing licence condition
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2.30 The reasons for amending this condition are to correct the values in Appendices 5, 6, 8, 10, 11, 12, 14 and 16 and to address a number of formatting issues.

2.31 The effects are to:

- Update the above Appendices with the correct values.
- Change the formatting to improve readability.

SpC 4.8 Distribution System Operation output delivery incentive (DSOIt)	
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Type of change	Amendment to existing licence condition
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2.32 The reason for amending this condition is to address a number of formatting issues.

2.33 The effect is to:

- Change the formatting to improve readability.

SpC 6.1 Pass-through terms (PTt)– ENWL ONLY	
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Type of change	Amendment to existing licence condition
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2.34 The reason for amending this condition is due to the -SRC_t term not being included in ENWL’s licence under 6.1.3, whereas it is present in all other licenses. This is an error.

2.35 The effect is to:

- Include the -SCR_t term in the ENWL licence.

SpC 9.7 Directly Remunerated Services	
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Type of change	Amendment to existing licence condition
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2.36 The reasons for amending this condition are to remove an erroneous reference to “Part C” in SpC 9.7.12 and to address a number of formatting issues.

2.37 The effects are to:

- Delete the reference to “Part C” in SpC 9.7.12.
- Change the formatting to improve readability.

3. Proposed changes to the Standard Licence Conditions

Section summary

This section summarises the changes we propose to make to the SLCs. The structure of this section sets out the condition in question, the reason for the proposed change and the effect of implementing our proposed solution.

Q2. What are your views on the proposed changes to the SLCs listed in this chapter?

Introduction

3.1 The SLCs apply to all electricity distribution licence holders. This section sets out the reasons for and effects of each of the SLCs that we propose to modify. For the avoidance of doubt, we do not propose any changes to a SLC if it is not listed in this chapter.

Standard Licence Conditions

Various SLCs	
Type of change	Amendment to existing licence condition

3.2 The reason for amending several conditions is to address a number of formatting issues.

3.3 The effect is to:

- Change the formatting to improve readability.

SLC 1 – Definitions for the standard conditions	
Type of change	Amendment to existing licence condition

3.4 The reason for amending this condition is due to the Competition and Markets Authority not currently being defined in the Standard Licence Conditions.

3.5 The effect is to:

- Introduce a new defined term for the Competition and Markets Authority, defined as “means the Competition and Markets Authority, which is the competition regulator in United Kingdom.”

SLC 7A Whole Electricity System Obligations	
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Type of change	Amendment to existing licence condition
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3.6 The reason for amending this condition is due to the fact that stakeholders expressed the view that the requirement to publish a Coordination Register for the first time should refer to a clearly specified date that is not dependent on knowledge of when the relevant condition came into force.

3.7 The effect is to:

- Replace the reference to “no later than 12 months from the date of this condition coming into force” with “by 27 May each year”. This change clarifies the specific date on which the Coordination Register must be first be published on the licensee’s website.

SLC 8 Safety and Security of Supplies Enquiry Service	
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Type of change	Amendment to existing licence condition
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3.8 The reasons for amending this condition are due to stakeholders having identified duplicate statements in the current licence (SLC 8.4, 8.5 and 8.6) and a need to clarify the expectations surrounding the safety and security of supply enquiry service.

3.9 The effects are to:

- Delete the current paragraphs SLC 8.5 and 8.6 which duplicate SLC 8.4.
- Introduce a new paragraph (new SLC 8.5) which states “The licensee must at all times have in force a statement approved by the Authority that sets out, in plain and intelligible language, details of the safety and security of supplies enquiry service.”.

SLC 25A Distributed Generation: Connections Guide	
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Type of change	Amendment to existing licence condition
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3.10 The reason for amending this condition is to correct a heading which is erroneous.

3.11 The effect is to:

- Change the heading of Part B from “R of the DG Connections Guide” to “Review of the DG Connections Guide”.

Chapter 7A: Independent Distribution Network Operators	
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Type of change	Amendment
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3.12 The reason for amending this chapter title is that it only refers to SLC 31A to 31C as the conditions which are applicable to Independent Distribution Network Operators (**IDNOs**). Having received representations from stakeholders and having reviewed the content of the licence, we believe the chapter title should be clarified in scope to refer to condition 31D (Prohibition on Generating by Licensee). Equivalent licence conditions are in place for DNOs in SLC 43B.

3.13 The effect is to:

- Clarify the conditions which apply specifically to IDNOs in this chapter to include SLC 31D.

SLC 37 Provision of the Data Transfer Service	
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Type of change	Amendment to existing licence condition
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3.14 The reason for amending this condition is to correct the heading and content of SLC 37.5 which currently does not reference "Transfer". This is the intent of SLC 37 and should reference the word "Transfer". Not doing so could lead to confusion regarding the condition.

3.15 The effect is to:

- Include the term "Transfer" in this condition, in line with the content and intent of SLC 37.

4. Further proposed changes in light of the CMA’s Final Determinations

Section summary

This section summarises the further changes we propose to make to the SpCs. The structure of this section sets out the background of the RIIO-ED2 appeal by NPg and the CMA’s Final Determinations, our proposed approach in reconsidering and redetermining our decision, our proposed modifications to the licence conditions where changes are required, and the reason and the effect of implementing our proposed solution.

Reason and effect for modifications

4.1 The CMA Order remitted the matter of the allocation of NPg’s total modelled costs back to us for reconsideration and redetermination. We have now considered the appropriate approach and are proposing to make the necessary modifications to NPg’s licence⁵ conditions to implement that approach.

Background

Allocation of costs

4.2 DNOs incur expenditure across a range of different activities including operating, maintaining, and enhancing their networks. As part of the RIIO-ED2 price control setting process, DNOs submitted business plans and business plan data templates (**BPDTs**), which set out their forecast costs against these different types of activities.

4.3 While DNOs submitted their forecast costs at an activity level, our cost assessment approach produced modelled costs at a total expenditure (totex) level. This is because for RIIO-ED2 our cost assessment approach utilised two different benchmarking approaches, totex benchmarking (which produced modelled costs at a totex level only) and disaggregated benchmarking (which produced modelled costs at an activity level). These two approaches were then combined at a totex level to produce an overall set of total modelled costs.

⁵ To implement our proposed approach to allocate NPgN’s and NPgY’s total modelled costs, we will make incidental modifications to the licence conditions of NPgN’s and NPgY’s as well as the other DNOs to reflect NPgY’s and NPgN’s updated allocated total modelled costs.

- 4.4 In our RIIO-ED2 Final Determination, for the purposes of operationalising the price control, we allocated total modelled costs to the relevant cost categories (and relevant licence conditions), by using an equally weighted blend between:
- the cost shares derived from DNOs' submitted business plans⁶ (the "submitted cost shares"); and
 - the cost shares derived from the outcome of our disaggregated modelling (the "disaggregated benchmarking cost shares").

NPg's Ground of Appeal

- 4.5 NPg's appeal concerned the allocation of their total modelled costs between cost categories. NPg submitted (by reference to the statutory grounds of appeal contained in s. 11E of the Electricity Act 1989) that we were wrong to rely on their submitted cost shares at all, when allocating DNOs' modelled costs.

Summary of the CMA's Final Determinations

- 4.6 The CMA determined that our decision to rely on proportions derived from NPg's submitted costs when allocating NPg's total modelled costs was wrong. The CMA reasoned that this was because the unadjusted cost proportions derived from NPg's submitted costs⁷ were an irrelevant consideration. The CMA explained that *"...in circumstances in which GEMA rejected NPg's Load Related Expenditure (LRE) in its submitted costs and the share of the LRE in NPg's submitted costs was materially higher than the share of LRE within total efficient modelled costs, the cost proportions that were derived by GEMA from NPg's submitted costs⁶ were not relevant, and could not legitimately be relied on at all, for the purposes of GEMA's allocation of NPg's total efficient modelled costs."*⁸ A summary of the CMA's key findings is below (see the CMA's Final Determinations for the full reasoning).
- 4.7 The CMA highlighted the impact of the adjustments applied to LRE cost categories within our disaggregated benchmarking and noted that these adjustments were captured by virtue of the 50% weight we attached to the disaggregated benchmarking produced modelled costs, and the 50% weight we attached to the allocation based on the disaggregated benchmarking cost shares.⁹

⁶ Note that these are submitted costs after exclusions and reclassifications.

⁷ Based on its decarbonisation planning scenario without any specific further adjustment for the purposes of the allocation of NPg's total efficient modelled costs.

⁸ Paragraph 4.124 CMA's Final Determinations

⁹ Paragraph 4.129 CMA's Final Determinations

- 4.8 The CMA stated that *“GEMA’s adjustments to LRE within totex benchmarking cannot be estimated precisely as its three totex models produced a set of total modelled costs (rather than a more granular breakdown of different cost categories such as the five LRE cost categories)”*.¹⁰ In discussing adjustments within our cost assessment, the CMA also said that *“Within GEMA’s cost assessment, workload adjustments were applied in the disaggregated benchmarking and the DDA [(Demand Driven Adjustment)] was applied in the totex benchmarking alongside implicit volume adjustments within the totex models.”*¹¹
- 4.9 The CMA stated that *“although... it cannot be assumed that the DDA solely impacts LRE, GEMA’s initial assumption, namely that the DDA predominately impacts LRE cost categories, appears to be appropriate in our view on the basis that an explicit DDA adjustment can be more directly attributed as a reduction in LRE in the composition of NPg’s modelled costs.”*¹²
- 4.10 In response to our argument that it could not definitively be said, and that NPg had not demonstrated, that the explicit and implicit adjustments to NPg’s submitted costs as part of the totex benchmarking produced a materially lower share of LRE in the modelled costs compared to NPg’s submitted costs, the CMA quoted our response the CMA’s Provisional Determinations, *“[g]iven the nature of the composite growth variables used in totex models 2 and 3, and the way in which the DDA was derived and applied, it might expect that the adjustments to NPg’s totex would be focused on LRE.”*¹³
- 4.11 In summary, the CMA determined that our use of unadjusted submitted cost shares was likely to have had the effect of materially distorting the effective allocation of total modelled costs to different cost categories.¹⁴
- 4.12 The CMA remitted the matter of the allocations back to GEMA for reconsideration and determination and *“[g]iven the complexity of the matter, in particular the need for GEMA to determine and implement an appropriate methodology for its allocation of NPg’s total modelled costs”*,¹⁵ did not give any directions in relation to the approach that we should take.

¹⁰ Paragraph 4.130 CMA’s Final Determinations

¹¹ Paragraph 4.122 CMA’s Final Determinations

¹² Paragraph 4.131 CMA’s Final Determinations

¹³ Paragraph 4.131 CMA’s Final Determinations

¹⁴ Paragraph 4.135 CMA’s Final Determinations

¹⁵ Paragraph 6.12 CMA’s Final Determinations

- 4.13 The CMA indicated any reconsideration and determination of the matter would not “*necessarily rely solely on the cost proportions derived from the disaggregated benchmarking*”.¹⁶
- 4.14 The CMA added, that as the disaggregated benchmarking was used in association with totex benchmarking to determine total modelled costs, it might be the case that it would be appropriate to use other sources of information on cost proportions alongside the disaggregated benchmarking cost shares for the purposes of the allocation of NPg’s total modelled costs. The CMA stated that it might be the case that some of the information derived from NPg’s business plan submission would be informative given that the DNOs’ submitted cost shares are an important input to GEMA’s benchmarking.¹⁷
- 4.15 The CMA indicated that we may wish to consider using one or a combination of the following sources of information in redetermining our approach on allocations:¹⁸
- (a) The low scenario costs submitted by NPg; and/or
 - (b) NPg’s submitted costs based on its decarbonisation planning scenario to be modified by applying adjustments that are aligned with those applied in our cost assessment.
- 4.16 The CMA also stated, “*We note that in our assessment of the challenge brought by NPg, we do not take issue with GEMA’s use of a blended approach (that is, an approach that blends differently derived cost proportions), nor in principle with the use of information derived from NPg’s business plan submission; rather the error we have identified is in respect of the use of the proportions derived from NPg’s submitted costs as one part of the blended approach that it adopted. As noted in chapter 6 (Remedies), some of the information derived from NPg’s business plan submission would be informative for the purposes of allocating NPg’s total efficient modelled costs (see paragraph 6.13).*”¹⁹

¹⁶ Paragraph 6.13 CMA’s Final Determinations

¹⁷ Paragraph 6.13 CMA’s Final Determinations

¹⁸ Paragraph 6.13 CMA’s Final Determinations

¹⁹ Paragraph 4.141 CMA’s Final Determinations

Approach to remedying the decision

Principles for determining an approach to cost allocations for NPg

4.17 Due to the nature, complexity and range of potential options in redetermining an approach to allocating NPg's total modelled costs, we have developed a set of principles which have guided our approach:

- (1) **Consistency with our statutory principal objectives:** Any approach and outcome should be consistent with our statutory duties, principally, to protect the interests of existing and future consumers.
- (2) **Alignment with the fundamental basis of our cost assessment:** The allocations process should align with and reflect as accurately as possible the basis of our cost assessment. This principle consists of two components:
 - (a) any allocations approach should take into account our overall cost assessment approach and how we set allowances; and
 - (b) that total modelled costs were not set by reference to a single, defined common decarbonisation planning scenario.
- (3) **Consistency with the CMA's reasoning in its Final Determinations:** This approach should reflect and address the comments that the CMA has made in its Final Determinations.
- (4) **Simplicity, transparency, and replicability:** The approach should be clear to understand, transparent and, as far as possible, replicable.²⁰

4.18 The development of these guiding principles has provided a valuable framework for our reconsideration of an approach to allocating for NPg's total modelled costs.

Q3. What are your views on the proposed principles? Do you agree that the principles provide a valuable framework for our consideration of an approach to cost allocations for NPg?

²⁰ Note that while the redetermination of our approach only applies to NPg, it is an important consideration that the approach should not be entirely bespoke to one DNO. We consider our approach should be replicable across all DNOs, in line with our approach to cost assessment which was applied consistently across all DNOs.

Consideration of CMA’s Final Determinations

4.19 In our reconsideration of the matter of the allocation of NPg’s total modelled costs, we have explored a range of potential approaches. In our considerations, we have excluded any approach that places any reliance on NPg’s unadjusted submitted costs shares.

Relying solely on disaggregated benchmarking cost shares

4.20 We have considered the approach of putting 100% weight on the disaggregated benchmarking cost shares, for the purposes of allocating NPg’s total modelled costs.

4.21 We consider that there are significant drawbacks in relying exclusively on the disaggregated benchmarking cost shares for the purpose of allocations. The disaggregated benchmarking does not capture interactions or linkages between activities directly in the modelling and it does not sufficiently account for differences in DNO company structure and business models. Sole reliance on disaggregated benchmarking cost shares would only reflect one aspect of our cost assessment (the disaggregated benchmarking) while excluding the other 50% i.e. the totex benchmarking. We consider there is also a risk that relying exclusively on these cost shares could result in an overallocation of costs to certain cost activities, due to the nature of some of the specific adjustments that were applied within the disaggregated benchmarking, such as Closely Associated Indirects. An exclusive reliance on disaggregated benchmarking cost shares would not accurately reflect our cost assessment approach and as such would conflict with Principle 2 within the principles developed for our redetermination set out above.

4.22 The limitations with such an approach were set out in detail in our RIIO-ED2 Final Determinations,²¹ and as noted at paragraph 4.13 above, the CMA has also stated that it does not envisage that we would necessarily rely solely on the disaggregated cost shares.

4.23 While we do not consider that there is merit in relying exclusively on disaggregated benchmarking costs shares, we remain of the view that there is value in using disaggregated benchmarking cost shares as part of a blended approach to allocations. Our reasoning for this view is explained in our RIIO-ED2 Final Determinations.²² This is also consistent with the CMA’s considerations,

²¹ RIIO-ED2 Final Determinations paragraph 7.643

²² RIIO-ED2 Final Determinations paragraph 7.639 to 7.647.

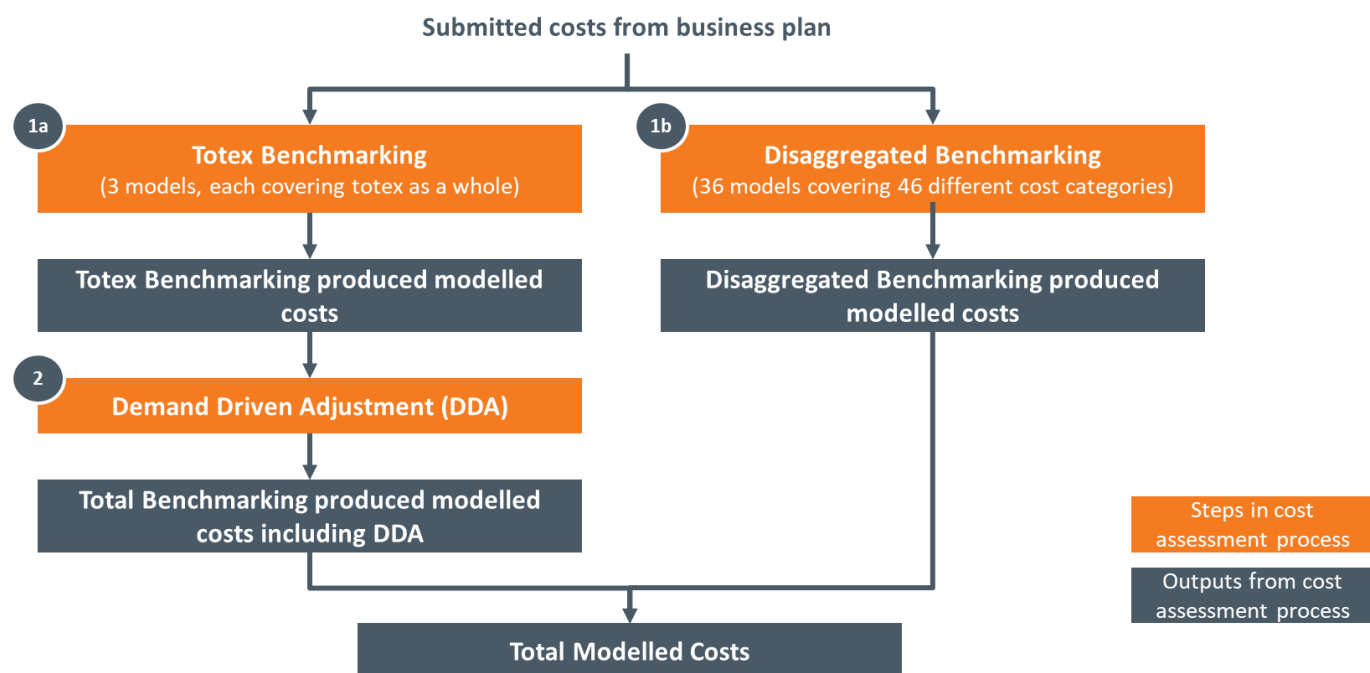
noted at paragraph 4.14, that it would be appropriate to use disaggregated benchmarking cost shares alongside other sources of information, in an approach to cost allocations.

Q4. Do you consider there is merit in relying solely on the disaggregated benchmarking cost shares for the purpose of allocations, taking account of the significant drawbacks?

Using 'low scenario' costs submitted by NPg

- 4.24 We have considered using the 'low scenario' costs submitted by NPg alongside the disaggregated benchmarking cost shares, for the purpose of allocations. This approach would rely on NPg's System Transformation view of LRE to approximate a low decarbonisation scenario view of submitted cost shares, alongside the disaggregated benchmarking cost shares.
- 4.25 We did not provide or prescribe a single common scenario for DNOs to use in their business plan submissions. Instead, we set out a common set of forecast assumptions and net-zero pathways that DNOs should apply when developing their business plans. In response, DNOs submitted business plans and BPDTs forecasting their costs against their own baseline decarbonisation planning scenario. In line with our guidance, DNOs did also provide some limited supporting information that set out their forecast LRE against 'low' and 'high' decarbonisation planning scenarios. NPg specifically provided supplementary information against a 'low' decarbonisation planning scenario consistent with the Electricity System Operator's (**ESO**'s) Future Energy Scenarios (**FES**) System Transformation scenario.
- 4.26 Figure 1 illustrates that our cost assessment consisted of a multi-step process which included two different benchmarking workstreams, totex benchmarking (which included three totex models, assessing DNOs' total costs) and disaggregated benchmarking (which included 36 disaggregated models, assessing DNOs' costs across 46 separate cost categories). A further separate step was a post-modelling adjustment applied to the outputs of our three totex models in our cost assessment, the Demand Driven Adjustment (**DDA**), as noted at paragraph 4.8.

Figure 1: Simplified schematic of a component of the cost assessment process²³



4.27 Our totex benchmarking (**Step 1a**) was not designed to benchmark DNOs against a specific decarbonisation planning scenario. On the contrary, our three totex models were specified in such a way as to provide a consistent basis for the efficiency benchmarking by controlling for variations between DNOs’ forecast decarbonisation planning scenarios through the inclusion of explanatory variables (cost drivers). We included cost drivers within our three totex models to provide a consistent basis for the comparison of DNOs’ forecast costs, so that the efficiency comparison was not distorted by different assumptions in volumes of cost drivers. Accordingly, our totex benchmarking (which as described is the collective term for our three totex models) did not change the volumes of the cost drivers in the process of producing modelled costs (shown as totex benchmarking produced modelled costs in Figure 1).

4.28 The inclusion of the following cost drivers within our three totex models helped to control for differences in forecast costs between DNOs on different decarbonisation planning scenarios:

²³ For the purpose of this illustration, ‘submitted costs from business plan’ are a DNOs submitted costs based on its own baseline decarbonisation planning scenario, after the normalisations process.

- All three totex models included MEAV²⁴ and total network length as cost drivers. These drivers included DNOs' forecast view of workload associated with their own baseline decarbonisation planning scenarios;
- Capacity released was included as a cost driver in two of our totex models (model 1 and 2). This driver included DNOs' forecast view of the amount of additional network capacity they would create through asset intervention and the forecast workload associated with their own baseline decarbonisation planning scenario; and
- We included the Low Carbon Technologies (**LCTs**)²⁵ composite growth variable, which captures DNOs' forecasts of cumulative electric vehicle and heat pump uptake, in one of our totex models (model 3).

4.29 By using DNO's own forecasts of LCTs alongside forecasts of network growth and workload captured within the MEAV, network length and capacity released variables, we were satisfied that our totex benchmarking sufficiently controlled for differences in key aspects of DNOs planning scenario assumptions – namely the assumed rate of electrification of domestic heat and transport, and the proposed network reinforcement. In response to our Draft Determinations, all DNOs broadly supported the approach of linking the need for reinforcement to cost drivers based upon LCT growth. Specifically, NPg responded that the inclusion of the LCT composite growth variable in totex model 3 directly captured the different scenario assumptions made in DNOs' plans.

4.30 In two of our totex models (model 1 and model 2) we also included a 'RIIO-ED2 dummy variable', which was to address the structural break between RIIO-ED1 and RIIO-ED2 i.e. the step change in costs observed over the time periods. Part of our rationale for this at RIIO-ED2 Final Determinations was that the change in price control period (between RIIO-ED1 and RIIO-ED2) and the transition to net-zero were good reasons to have "prior expectations" of a step change in the modelled relationships between totex and cost drivers from the beginning of RIIO-ED2.²⁶ In response to our Draft Determinations, one DNO commented that the inclusion of a RIIO-ED2 dummy variable adequately captured the step change forecasted in totex. This further evidences the fact that our totex benchmarking

²⁴ Modern Equivalent Asset Value (MEAV), which is the estimated cost of replacing all of the assets on the network with a new asset with the same service capability as the existing asset. We put a value on the DNO's current and future network assets, in today's prices/values, to use as a measure of the scale of DNO networks.

²⁵ LCTs in this instance refers to electric vehicles and heat pumps.

²⁶ RIIO-ED2 Final Determinations Core Methodology paragraph 7.138.

was designed in such a way to allow for the increased volumes of workload associated with an increase in LRE to support the transition to net-zero, as opposed to simply benchmarking DNOs down to a low scenario view of workload volumes.

- 4.31 In summary, we did not develop our suite of totex models as part of our totex benchmarking to benchmark DNOs against a particular decarbonisation planning scenario. On the contrary, we explicitly specified our totex models in such a way as to control and allow for differences between DNOs' forecast decarbonisation planning scenarios. As such we consider that the totex benchmarking produced modelled costs are a function of DNOs own forecast baseline decarbonisation planning scenarios.
- 4.32 We therefore consider that any 'low scenario costs' have limited relevance for the purposes of allocation of total modelled costs. We consider that an approach that relies on the 'low scenario' costs submitted by NPg as part of our approach to allocations would not account for the design and specification of our totex models and the totex benchmarking produced modelled costs. Such an approach would be inconsistent with Principle 2, the fundamental basis of our cost assessment, and could lead to an unintended outcome, as the allocation of total modelled costs under this approach would bear little resemblance to the assessment of NPg's costs through our totex benchmarking.
- 4.33 Our disaggregated benchmarking (**Step 1b**) compared DNOs' costs on a cost activity-by-activity basis, using a range of different models. In our disaggregated benchmarking models related to LRE, we predominately adjusted DNOs' forecast workload activity to an efficient view of workload activity given DNOs' submitted demand forecasts and LCT uptake projects i.e. DNOs' own forecast decarbonisation planning scenarios.²⁷ There was a component of the adjustments we made to one disaggregated benchmarking model that had a demand-based element. Regardless, as noted at paragraph 4.7, the CMA has stated that the impact of the adjustments applied to LRE cost categories within our disaggregated benchmarking are captured by virtue of the 50% weight we attached to the disaggregated benchmarking produced modelled costs in establishing DNOs' total modelled costs, and the 50% weight we attached to the

²⁷ Paragraph 5.53 CMA's Final Determinations

disaggregated benchmarking cost shares when allocating DNOs' total modelled costs to cost categories.²⁸

- 4.34 Finally, the DDA (**Step 2**) was an explicit adjustment and separate step in our cost assessment process, as shown in Figure 1, which derived an adjustment based on a FES System Transformation view of LCT uptake. This was recognised by the CMA who stated that “[u]nlike workload adjustments, the DDA was a post-modelling adjustment which reflected the difference between the DNOs’ submitted scenarios and a particular projection of LCT uptake contained in the System Transformation FES.”.²⁹
- 4.35 The CMA, in its Final Determinations, as noted at paragraph 4.8, refers to the DDA as an adjustment applied in the totex benchmarking. The DDA was an explicit, post-modelling adjustment applied to the outputs of our totex benchmarking i.e. to the outputs of each of the three totex models. The DDA was a separate and discrete step in our cost assessment.
- 4.36 As such, we do not consider that the DDA can effectively be understood, or specifically categorised as a rebasing of NPg’s costs to the System Transformation ‘low scenario’. The purpose of the DDA was to provide a targeted and specific adjustment. The adjustment reflected our view of the insufficient justification for DNOs’ individual forecast on the levels of LCT uptake, the corresponding impact on the levels of demand on their networks, and the need to invest in the upgrade of their networks.
- 4.37 On this assessment, we do not propose to rely on NPg’s System Transformation view of LRE as we do not believe that it is appropriate to try to approximate a low decarbonisation scenario view of submitted cost shares for the purposes of allocations. Such an approach would be inconsistent with the foundations and purpose of our cost assessment process. Further, we consider that such an approach would be challenging to implement in accordance with our principles for determining an approach to allocations, specifically Principle 2, because total modelled costs were not based on a defined planning scenario. While the DDA did involve an explicit adjustment that was derived based on a FES System Transformation view of LCT uptake, our totex benchmarking was based on DNOs’ own decarbonisation planning scenarios, and the adjustments within our disaggregated benchmarking were predominately efficiency-based (and were

²⁸ Paragraph 4.129 CMA’s Final Determinations

²⁹ Paragraph 5.31 CMA’s Final Determinations

nonetheless captured by the inclusion of disaggregated benchmarking produced modelled costs and disaggregated benchmarking cost shares being given 50% weight in both the calculation and allocation of total modelled costs).

- 4.38 Moreover, we consider that such an approach would lead to a perverse outcome. NPg's submitted costs, based on its own baseline decarbonisation planning scenario were £3,216m.³⁰ The difference between NPg's submitted costs and its 'low scenario' LRE informed submitted costs is £287m. Our totex benchmarking produced modelled costs, which were £3,233m³¹, are £304m higher than this NPg low scenario view of submitted costs. The proposition that we would use the NPg low scenario view of submitted costs to inform the allocation of the much higher total modelled costs which are derived from the totex and disaggregated benchmarking, including the impact of the explicit DDA, does not appear to have a sufficient logical basis.

Q5. Do you consider there is a justification for us relying on the 'low scenario' costs submitted by NPg alongside the disaggregated benchmarking cost shares, for the purposes of allocations?

Q6. Do you agree with our view that (a) our totex models adequately control for differences in decarbonisation planning scenarios across DNOs, and (b) there are no observable or measurable adjustments within our totex benchmarking produced modelled costs for LRE that would materially impact the balance of totex? (c) If not, how do you think we could observe and measure any implicit adjustments that may be being made?

Q7. Do you agree with our view that it would not be appropriate to utilise the low scenario LRE costs submitted by NPg as part of an approach to allocations?

Adjusting submitted cost shares to reflect our cost assessment

- 4.39 Taking account of the CMA's reasoning in its Final Determinations, as noted at paragraph 4.15 (b), we have considered adjusting NPg's submitted costs shares to best reflect the adjustments that we applied in our cost assessment. These would be used alongside the disaggregated benchmarking cost shares, for the purpose of allocations.

- 4.40 The adjustments applied through our cost assessment can be considered at each of the different steps noted at paragraph 4.26 and illustrated in Figure 1 above:

³⁰ Submitted costs after exclusions and reclassifications.

³¹ Modelled costs from the totex benchmarking, before application of DDA and catch-up efficiency challenge.

- Step 1a – Totex Benchmarking;
- Step 1b – Disaggregated Benchmarking; and
- Step 2 – DDA.

4.41 At Step 1a of our cost assessment, our totex benchmarking produced modelled costs for NPg were £3,233m compared to NPg’s submitted costs of £3,216m. Our totex benchmarking did not include any explicit adjustments. For the reasons set out at paragraphs 4.27 to 4.31, we have not identified any implicit adjustments that can be observed, quantified or measured at the individual cost level, or how the impact of such adjustments could be reliably or robustly estimated. We have not identified any evidence to suggest that any adjustments implicit in our totex models would materially impact LRE and the balance of totex. In consultation question Q6 above we have sought views on how we might observe or measure any implicit adjustments that may be present within our totex benchmarking. In response to this question, we would also welcome views on whether there are any suitable proxies that could be used to account for this, such as by reconsidering the weights that we place on cost shares.

4.42 The CMA in its Final Determinations, as noted at paragraph 4.8, refer to “*implicit volume adjustments within the totex models*”,³² and the CMA quotes our response to the CMA’s Provisional Determinations, as noted at paragraph 4.10, that “*we might expect that the adjustments to NPg’s totex would be focused on LRE*”.³³ However, in our response to the CMA’s Provisional Determinations, we said that the explicit DDA was designed in such a way that it could be said that its impact would predominately apply to LRE and that we had no evidence to show that adjustments made within our totex models could be said to focus on LRE. On the contrary, we consider that the specification of our totex models adequately controls for differences in demand pathways, and consequently, differences in the associated LRE, as discussed at paragraphs 4.26 to 4.31. Accordingly, we do not consider that these statements by the CMA, when read in context, positively find that there were observable or measurable implicit adjustments in the totex models which need to be reflected in our approach to allocation (or that we have previously stated that there are such adjustments). We would also welcome views on this issue.

³² Paragraph 4.122 CMA’s Final Determinations

³³ Paragraph 4.131 CMA’s Final Determinations; see further paragraph 4.132 CMA’s Final Determinations

- 4.43 At Step 1b of our cost assessment, our disaggregated benchmarking, we made targeted, explicit adjustments to certain cost categories that can be directly observed, quantified, and measured at a cost category level. These adjustments, as noted at paragraph 4.7, are captured by virtue of the 50% weight we attached to the disaggregated benchmarking-produced modelled costs when calculating total modelled costs, and the 50% weight we attached to the allocation based on the disaggregated benchmarking cost shares when allocating DNOs' total modelled costs to cost categories.
- 4.44 At Step 2 of our cost assessment, we calculated and applied the DDA, which made targeted and explicit adjustments that could be directly observed, quantified, and measured at the total modelled costs level. A key difference between the DDA at Step 2, and the adjustments carried out through our disaggregated benchmarking at Step 1b, is that the DDA was applied at the total modelled costs level. We therefore do not have sufficient information to assess or estimate its precise impact as an adjustment as if the DDA was applied at a more granular cost category level.
- 4.45 While we recognise that there is insufficient evidence to conclude that the DDA solely impacts LRE, we remain of the view that there is a reasoned and sufficient basis to assume that the DDA predominately impacts LRE. This view was supported by the CMA as noted at paragraph 4.8. As a result, while recognising that any adjustment to LRE shares in the submitted cost shares to account for the impact of the DDA would need to rely on a number of reasonable assumptions, including the specific size and weight of the adjustment to the individual LRE cost categories, on balance we consider that this approach would be consistent with the CMA's Final Determinations and would be in line with the principles that we have set out for redetermining our approach.
- 4.46 We have considered the CMA's Final Determinations, specifically their reasoning on applying adjustments aligned with those applied our cost assessment, and in summary:
- we do not consider that making adjustments to reflect Step 1a of our cost assessment (the totex benchmarking) is appropriate given the lack of any explicit adjustments, and the unquantifiable nature of any adjustments that may be implicit in our totex benchmarking;
 - we consider that the adjustments from Step 1b of our cost assessment, (the disaggregated benchmarking), are already sufficiently captured; and

- we consider that the appropriate adjustment to make is to reflect Step 2 of our cost assessment, the impact of the explicit DDA.

Q8. Do you agree with our view that the most appropriate way to adjust submitted cost shares to reflect our cost assessment is by making adjustments based on the explicit DDA adjustments?

Our proposed approach

- 4.47 We propose to make an adjustment to NPg’s submitted cost shares. We propose that this adjustment should reflect the impact of the explicit DDA. We propose to rely on these adjusted submitted cost shares, weighted equally with the disaggregated benchmarking cost shares to allocate NPg’s total modelled costs.
- 4.48 We consider this proposed approach is the best available approach to allocating NPg’s total modelled costs because:
- It acknowledges the value in utilising the disaggregated benchmarking cost shares as part of our allocations approach, while recognising that it would not be appropriate to rely wholly on the disaggregated benchmarking cost shares for the reasons set out in paragraphs 4.20 to 4.23.
 - It acknowledges the value in using a range of sources of information on cost proportions for the purposes of determining an allocations approach, alongside the disaggregated benchmarking cost shares.
 - The approach satisfies each of the guiding principles set out at paragraph 4.17.
 - The approach does not present the fundamental challenges that alternative approaches present (and as such we consider that is a reasonable approach). Relying on NPg’s ‘low scenario’ costs would be inconsistent with the basis of our cost assessment and would lead to an illogical outcome, as set out in paragraphs 4.24 to 4.38.
 - The approach addresses any material distortion from relying on unadjusted submitted costs shares for the effective allocation of NPg’s total modelled costs to different cost categories.
 - The adjustments to NPg’s submitted costs shares account for the magnitude of the observed, measurable, and quantifiable adjustments made to NPg’s submitted costs, through our cost assessment, which could be said to materially impact the share of LRE in NPg’s total modelled costs.

Implementation of our proposed approach

- 4.49 We propose using the DDA to adjust the submitted cost shares of the three cost categories which we consider to be the most relevant for reflecting the impact of the DDA:
- LRE: Primary Reinforcement
 - LRE: Secondary Reinforcement
 - Closely Associated Indirects
- 4.50 The capacity released variable described in paragraph 4.28 represents the gross capacity added across both the primary and secondary networks, capturing RIIO-ED2 forecast workload from the primary and secondary reinforcement cost activities. As it is directly adjusted in the derivation of the DDA, it is a reasonable conclusion that these are the two most relevant cost categories when considering which components of LRE are impacted by the DDA. Furthermore, the LCT composite growth variable in totex model 3, represents a key cost driver for LRE, particularly secondary reinforcement. The fact that the derivation of the DDA across all three models is anchored on adjusting this cost driver, further supports our conclusion that the DDA predominately affects these two cost categories.
- 4.51 We have assumed a relationship between LRE and closely associated indirect costs through the Indirects Scaler, with an increase in indirects allowed in line with increasing LRE (additional allowance will be provided at 10.8% of additional LRE above ex ante allowance). The variant ex ante allowance for the Indirects scaler is calculated as 10.8% of the ex ante allowance set for the SRVD and LVSVD. Thus, if we adjust the submitted cost shares for secondary reinforcement, we assume the DDA also impacts a component of indirects. Accordingly, we consider it logical and correct to adjust cost shares for Closely Associated Indirects in line with the treatment of the indirects scaler outlined above.
- 4.52 We do not propose to include the three other LRE categories in our approach – Connections, Fault Level Reinforcement and New Transmission Capacity Charges (NTCC). We do not consider that the impact of the DDA, and the cost drivers used to derive it, are sufficiently relevant for Fault Level or NTCC. Whilst one might expect that the DDA would impact Connections expenditure, it is not directly related to the capacity released growth variable used in the derivation of the DDA. We have therefore decided to exclude Connections in the implementation of this approach.

Consultation - Statutory consultation on the electricity distribution standard and special licence conditions – reasons and effect

4.53 Having selected the relevant cost categories, we propose to adjust NPg’s submitted cost shares via the following steps:

- Step 1: Sum up submitted costs for Primary Reinforcement, Secondary Reinforcement, and a component of closely associated indirects (calculated as 10.8% of submitted secondary reinforcement costs). Calculate the size of each cost category relative to this total – for NPg this equates to:
 - (1) Primary Reinforcement ~ 11.5%,
 - (2) Secondary Reinforcement ~ 80%,
 - (3) Indirects ~ 8.5%.
- Step 2: Apportion the £167m DDA using the % shares listed above and use the resulting allocation to adjust submitted costs for Primary and Secondary Reinforcement, and CAIs.
- Step 3: Calculate adjusted submitted cost shares for every cost category as a percentage of the adjusted submitted totex.

4.54 NPg’s unadjusted and adjusted submitted cost shares are presented below in Table 1.

Table 1: Summary of NPg’s unadjusted and adjusted submitted cost shares

Cost Category	NPgN Submitted Cost shares %	NPgN Adjusted Submitted Cost Shares %	NPgY Submitted Cost shares %	NPgY Adjusted Submitted Cost Shares %
Primary Reinf.	1.6%	1.0%	2.4%	1.7%
Secondary Reinf.	10.5%	7.1%	16.6%	13.1%
CAI	15.4%	15.8%	14.4%	14.8%
Rest of LRE	4.8%	5.0%	3.0%	3.2%
Rest of Totex	67.8%	71.1%	63.5%	67.3%

Q9. Do you agree with our methodology for implementing our proposed approach?

Impact of proposed modifications

Impact on allowances

4.55 The effect of the proposed modified allocations approach on NPg's totex allowance is to reduce the variant ex ante totex allowances by £44m and increase the non-variant ex ante allowance by £42m. This is illustrated in Table 2 below.

Consultation – Statutory consultation on the electricity distribution standard and special licence conditions – reasons and effect

Table 2: Changes to NPg's non-variant and variant totex allowances as a consequence of our redetermination of the allocation of total modelled costs

	NPgN RIIO-ED2 FDs	NPgN RIIO-ED2 remedy	NPgN change +/-	NPgY RIIO-ED2 FDs	NPgY RIIO-ED2 remedy	NPgY change +/-
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Non-variant totex						
Load related capex	79.1	77.2	-1.9	129.5	125.5	-4.0
Non-load related capex - asset replacement	178.5	182.8	+4.3	208.2	214.3	+6.0
Non-load related capex - other	98.2	100.5	+2.3	125.0	128.1	+3.1
Faults	120.1	123.2	+3.1	214.2	220.1	+6.0
Tree cutting	18.3	18.8	+0.5	25.7	26.5	+0.8
100% 'revenue pool' expenditure	30.7	31.4	+0.7	36.8	37.7	+0.9
Controllable opex	349.2	357.7	+8.5	450.6	462.2	+11.6
Total non-variant allowances	874.1	891.6	+17.5	1,189.9	1,214.4	+24.4
Variant totex						
Network Asset Risk Metric Expenditure	138.7	142.0	+3.3	161.0	165.7	+4.7
Secondary Reinforcement (SRVD)	53.9	40.8	-13.0	116.0	96.2	-19.9
Low Voltage Services (LVSVD)	28.3	21.4	-6.8	47.9	39.7	-8.2
Visual Amenity Projects	5.1	5.3	+0.1	4.7	4.8	+0.1
Worst Served Customers	0.9	0.9	+0.0	3.0	3.1	+0.1
Other variant allowances	29.5	27.8	-1.8	37.7	35.1	-2.6
Total variant Allowances	256.3	238.1	-18.2	370.1	344.4	-25.7
Totex Allowance (excl. RPEs)	1,130.5	1,129.7	-0.8	1,560.1	1,558.8	-1.3

Special Licence Conditions

Special Condition 3.1 Allowed Network Asset Risk Metric expenditure (NARMt)	
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Type of change	Amendment to existing licence condition
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4.56 The reasons for amending this condition are to correct the baseline allowed NARM expenditure values (as detailed in Table 2 above) included in Appendix 1, as a consequence of our reconsideration of the allocation of NPg’s total modelled costs.

4.57 The effect is to update the values to reflect the redetermination of our approach to allocating total modelled costs to individual cost categories.

Special Condition 3.2 Uncertain Costs Re-openers	
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Type of change	Amendment to existing licence condition
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4.58 The reasons for amending this condition are to correct the Load Related Expenditure ex ante non variant allowances in Appendix 2 (as detailed in Table 2 above), as a consequence of our reconsideration of the allocation of NPg’s total modelled costs.

4.59 The effect is to update the values to reflect the redetermination of our approach to allocating total modelled costs to individual cost categories.

Special Condition 3.4 Use It Or Lose It Allowances	
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Type of change	Amendment to existing licence condition
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4.60 The reasons for amending this condition are to correct the Worst Served Customers expenditure cap (WSCCSC) and Visual Amenity Projects expenditure cap (VAPCAP) allowances in Appendix 1 and Appendix 2, as a consequence of our reconsideration of the allocation of NPg’s total modelled costs (detailed in Table 2 above).

4.61 The effect is to update the values to reflect the redetermination of our approach to allocating total modelled costs to individual cost categories.

Special Condition 3.9 Load Related Expenditure volume drivers (SRVDt and LVSVDt)	
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Type of change	Amendment to existing licence condition
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4.62 The reasons for amending this condition are to correct the Secondary Reinforcement Volume Driver (SRVD) and Low Voltage Services Volume Driver

(LVSVD) ex ante allowances (as detailed in Table 2 above), and caps for the Price Control Period in Appendix 3, as a consequence of our reconsideration of the allocation of NPg's total modelled costs.

- 4.63 The effect is to update the values to reflect the redetermination of our approach to allocating total modelled costs to individual cost categories.

Price Control Financial Model (PCFM)

- 4.64 We have updated the RIIO-ED2 Price Control Financial Model (PCFM) to reflect the changes to NPg's totex allowances. The copy updated is 'Version 1', originally published on 27/02/2023, prior to the start of the RIIO-ED2 price control.

- 4.65 The changes made to the PCFM are as follows:

- Non-variant totex allowances (cells AR15:AV21) in the 'NPgN' and 'NPgY' input tabs.
- Variant totex allowances (cells AR24:AV63) in the 'NPgN' and 'NPgY' input tabs.

- 4.66 The changes to PCFM only reflect changes to implement our proposed redetermination of the allocation on NPg's totex allowances. They do not include any changes to NPg's allowances related to the Annual Iteration Process (AIP) updates. We intend that any consequential amendments related to NPg's AIP in 2023 will be reflected in NPg's AIP in 2024.

Appendices

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Appendix 1 – How to respond

- A1.1 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.
- A1.2 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- A1.3 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

- A1.4 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- A1.5 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- A1.6 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- A1.7 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

Consultation - Statutory consultation on the electricity distribution standard and special licence conditions – reasons and effect

General feedback

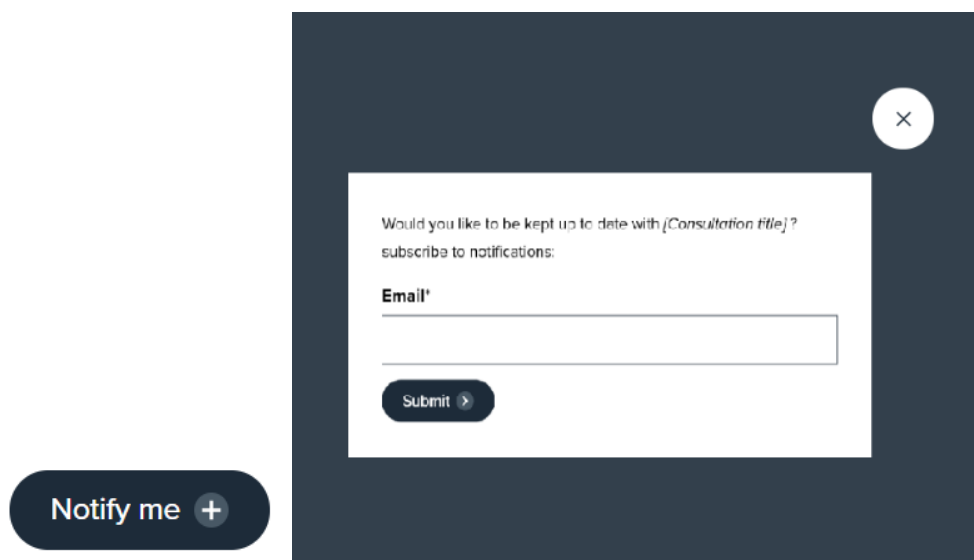
A1.8 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

- i) Do you have any comments about the overall process of this consultation?
- ii) Do you have any comments about its tone and content?
- iii) Was it easy to read and understand? Or could it have been better written?
- iv) Were its conclusions balanced?
- v) Did it make reasoned recommendations for improvement?
- vi) Any further comments?

A1.9 Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

A1.10 You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)



The image shows a dark blue modal window with a white close button (X) in the top right corner. Inside the modal, the text reads: "Would you like to be kept up to date with [Consultation title]? subscribe to notifications:". Below this is a label "Email*" followed by a text input field. At the bottom of the modal is a dark blue button with the text "Submit" and a right-pointing arrow. Below the modal, on the page, is a dark blue button with the text "Notify me" and a plus sign (+).

A1.11 Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

A1.12 **Upcoming** > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

Appendix 2 – Privacy notice on consultations

Personal data

- A2.1 The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).
- A2.2 Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

The identity of the controller and contact details of our Data Protection Officer

- A2.3 The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

Why we are collecting your personal data

- A2.4 Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

Our legal basis for processing your personal data

- A2.5 As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

With whom we will be sharing your personal data

- A2.6 We will not be sharing your personal data.

For how long we will keep your personal data, or criteria used to determine the retention period

- A2.7 Your personal data will be held for one year after the final decision on the proposals.

Your rights

- A2.8 The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:
- i) know how we use your personal data
 - ii) access your personal data

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- iii) have personal data corrected if it is inaccurate or incomplete
- iv) ask us to delete personal data when we no longer need it
- v) ask us to restrict how we process your data
- vi) get your data from us and re-use it across other services
- vii) object to certain ways we use your data
- viii) be safeguarded against risks where decisions based on your data are taken entirely automatically
- ix) tell us if we can share your information with 3rd parties
- x) tell us your preferred frequency, content and format of our communications with you
- xi) to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

Your personal data will not be sent overseas.

Your personal data will not be used for any automated decision making.

Your personal data will be stored in a secure government IT system.

More information

A2.9 For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".