Decision

Making a positive difference for energy consumers

Decision on the close out adjustments for RIIO-ED1

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The previous electricity distribution price control (RIIO-ED1) ended on 31 March 2023. It contained several elements which could not be fully settled (or "closed out") until the price control had ended. We presented the results of our initial assessment in our June 2024 consultation and sought views on the proposed adjustment values in each closeout area[1]. We have now considered the responses and this document sets out our decisions on the adjustments required.

We[2] have published the non-confidential consultation responses alongside this document.

[1] RIIO-ED1 Close out: Consultation on proposed adjustments | Ofgem

[2] The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

Contents

Executive Summary

This document summarises the value of adjustments for each onshore electricity distribution network owner (DNO) business under the previous RIIO price control period, which ended on 31 March 2023 (RIIO-ED1).

The RIIO-ED1 electricity distribution licence (the ED1 Licence) makes provision in relation to several areas which, due to their uncertain nature, could only be settled once all costs and/or outputs are known or can be forecast with sufficient accuracy. This means that some elements of the price control need to be subject to "close out" once the price control has ended and all the relevant information is available.

For the purposes of the closeout of RIIO-ED1, the following areas need to be addressed:

- Load Related Expenditure Re-opener (LRR);
- Net contributions from customers towards gross reinforcement costs (known as Net to Gross);
- High Value Projects Re-opener (HVP);
- Network Output Measures/Network Asset Secondary Deliverables (NASD);
- Expenditure associated with Link Box Replacement Volumes; and
- Specified Street Works Costs Re-opener (SSWC).

We have assessed each DNO's performance against these areas, consulted on the results of our initial assessment and the proposed adjustment values in each area,[3] reviewed the stakeholder opinions and updated company information received,[4] and where applicable updated our assessment of the adjustments required.

This document sets out our decision on adjustments to the licensees' price control allowances under the applicable mechanisms, as described in chapter 8 of the RIIO-ED2 Price Control Financial Handbook.[5]

The table below outlines the overall impact of the RIIO-ED1 closeout adjustments under each mechanism and summarises the cumulative impact of the updated assessment across all DNOs.

[3] See footnote 1. Referred to as the "June 2024 Consultation document" for the remainder of the document.
[4] We received six responses to our consultation.
[5] https://www.ofgem.gov.uk/publications/ed2-price-control-financial-handbook

Table 1: RIIO-ED1 closeout – value of adjustments[6]

Area	Consultation position	Decision
Load Related Expenditure[7]	84.5	58.53
Net to Gross	0	0
Network Output Measures	0	0
HVP[8]	36.56	36.56
Link Box Replacement Volumes	0	0
SSWC	19.02	21.62

The values above do not consider the operational treatment of applying the calculation of adjustments through the Price Control Financial Model (PCFM). These values will now be taken forward in the calculation of revised allowed revenues as part of the Annual Iteration Process (AIP)[9].

The AIP[10] will seek to ensure that the licensee's Regulated Asset Value (RAV) and Base Demand Revenue are in the same position (or as close to that as possible) as they would have been if the licensee's allowances had been set at the final level. The process:

- incorporates 'real time' adjustments to financial allowances;
- uses a financial model for the purpose of computing interactions between financial adjustments;
- provides for consistent treatment of the Totex aspects of the price control; and
- provides transparency on adjustments to base revenues, since the licence, methodologies, PCFM and variable values will be published.

The process of adjustment and calculation will be separately discussed and developed as part of the process in support of the AIP.

[6] All financial values in this document are presented in £ million 2012/13 prices unless specified otherwise.
[7] Amount to be shared with consumers through the Totex Incentive Mechanism.
[8] Amount prior to the application of the Totex Incentive Mechanism.
[9] https://www.ofgem.gov.uk/publications/decision-modify-ed2-price-control-financial-instruments
[10] The financial adjustment process is described in Chapter 1 of the ED1 Financial Handbook.

Introduction

1.1 The electricity distribution network in Great Britain (GB) consists of the low and medium voltage electricity wires and cables, which convey electricity from the high voltage electricity network across local distribution networks to customers directly connected to the system.

1.2 The providers of electricity distribution services (or DNOs) are natural regional monopolies. To ensure value for money for consumers, we regulate DNOs through periodic price controls.

1.3 The previous electricity distribution price control (RIIO-ED1) ran from 1 April 2015 to 31 March 2023. The price control set outputs that DNOs must deliver relating to network investment, and revenues they are allowed to collect from customers.

1.4 Within RIIO-ED1 there are several areas of expenditure that require information about actual efficient costs incurred, revenue received and the extent to which outputs have been delivered before RIIO-ED1 can be fully settled (or "closed out").

Our Process

1.5 The companies provided an initial 'performance assessment submission' (or PAS) in July 2023 detailing the value of the closeout adjustments proposed to be made and additional information explaining and justifying their performance in each closeout area.

1.6 We carried out an assessment of the qualitative and quantitative information provided by the DNOs in line with the process and agreed methodologies. We sought further engagement to resolve points of calculation and explanation and, where necessary, the DNOs provided supplementary and updated information to assist in our deliberations. We consulted bilaterally with DNOs on each closeout area where we considered further clarification was necessary.

1.7 We presented the results of our initial assessment in our June 2024 Consultation document and sought views on the proposed adjustment values in each closeout area.

- For re-openers[11]: we sought views on our assessment of the DNOs' efficient expenditure, and whether it meets the adjustment threshold and materiality test, and if so by how much ('Post-threshold Amount'); and
- For outputs mechanisms[12]: we sought views on what has been delivered and when and the level of costs incurred.

1.8 We received six responses to the consultation. All are available on our website alongside this document.

1.9 We have now considered the opinion and additional information provided by DNOs in their responses and our final view of each DNO's performance and any associated revenue adjustments are set out and described in the following chapters of this document.

Context

1.10 On 17 December 2019, we published our decision on the closeout methodologies for each of the elements of the RIIO-ED1 price control (the "Closeout Methodologies Decision document").[13]

1.11 On 12 March 2021, we published our decision on a separate, specific methodology dedicated to closing out Specified Street Works Costs once the price control ended to account for its uncertain nature (the "SSWC Decision document").[14]

1.12 In October 2023,[15] we modified the RIIO ED2 PCF Handbook to incorporate the RIIO ED1 closeout methodologies. The methodologies, associated decision documents, consultations and responses are all on our website (see related publications list below).

1.13 The final closeout methodologies for each closeout area (Annex A-E of the Closeout Methodologies Decision document and Appendix 1 of the SSWC Decision document) are included in the PCF Handbook and are not repeated here.

1.14 On 7 June 2024, we published the June 2024 Consultation document setting out the results of our assessment process and the proposed adjustment values for each applicable closeout area[16]. Further details of the proposed adjustment values were provided in a data file alongside the consultation document and a

[11] Load Related Expenditure Re-opener, the High Value Projects Re-opener and the Specified Streetworks Costs Re-opener.
[12] The Network Asset Secondary Deliverables (NASD) and the delivery of Link Box volumes.
[13] https://www.ofgem.gov.uk/publications/decision-methodologies-riio-ed1-closeout
[14] https://www.ofgem.gov.uk/publications/decision-riio-ed1-closeout-methodology-specified-street-works-costs-sswc
[15] https://www.ofgem.gov.uk/publications/decision-modify-ed2-price-control-financial-instruments-october-2023
[16] See footnote 1.

separate data file containing the updated Streetworks Cost model was also made available.

Related publications

- RIIO-ED1 Strategy Decision: https://www.ofgem.gov.uk/decision/strategy-decision-riio-ed1-overview
- RIIO-ED1 Final Proposals: https://www.ofgem.gov.uk/decision/riio-ed1-final-determinations-slow-track-electricity-distribution-companies and https://www.ofgem.gov.uk/decision/decision-fast-track-western-power-distribution
- RIIO-ED1 Price Control Financial Handbook: https://www.ofgem.gov.uk/publications/riio-ed1-price-control-handbook-slow-track and https://www.ofgem.gov.uk/publications/ed2-price-control-financial-handbook

Stages of decision making

1.15 The key stages of our decision-making process to finalise the value of adjustments in each closeout area is summarised in the table below.

Date	Stage description.
07/06/2024	Stage 1: Consultation open.
03/08/2024	Stage 2: Consultation closes (awaiting decision), Deadline for responses.
02/10/2024	Stage 3: Responses published.
02/10/2024	Stage 4: Consultation decision.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this Decision. We would also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments?

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

2. Load related reopener

This section explains the results of our assessment and the value of adjustment in the area of Load Related Expenditure under CRC 3G of the ED1 Licence. This applies to the DNO groups of UKPN and SSEN only.

Background

2.1 At the time of setting the RIIO-ED1 price control there was significant uncertainty around the required level of load related investments and the associated expenditure that may be incurred. We therefore included a reopener, the load-related reopener (LRR), to protect both customers and DNOs from changes to investment requirements. This reopener allows for adjustments to allowed revenues for load related expenditure (LRE[17]).

2.2 DNOs can access additional allowances only if costs are material and efficient. The Closeout Methodologies Decision document and Section CRC 3G of the ED1 Licence (the 3G test) set out how materiality and efficiency are determined. In essence:

i. Efficiency needs to be demonstrated in DNOs' submissions and determined by Ofgem.

ii. Materiality is determined through the 3G test comparing RIIO-ED1 LRE allowances, outturn expenditure, a materiality threshold and a deadband.

iii. Ofgem runs the 3G test considering reinforcement expenditure that has been avoided as a result of innovative activities (e.g. demand-side response or other non-traditional solutions) to ensure DNOs are not discouraged from carrying out these activities.[18]

2.3 A high-level summary of the DNOs' LRE expenditure submissions for the RIIO-ED1 closeout we received was provided in Chapter 2 of our June 2024 Consultation document. The document confirmed that, as underspend sits within the "deadband plus materiality allowance" specified in the Closeout Methodologies Decision document, the 3G test is not passed for the majority of DNOs. Other than the UKPN group, the DNOs considered that no adjustment to allowed revenues for LRE should be made through the ED1 closeout process.[19]

[17] Load related expenditure includes the costs of developing the networks to accommodate increased demand and generation, as well as managing the changing patterns of customers' use of the networks.
[18] For more detail on the methodology underpinning the LRR see (i) Electricity Distribution Licence, Special Conditions, CRC 3G. "Revising the allowed level of Load Related Expenditure" and (ii) Ofgem (17 December 2019), Decision on the closeout methodologies for RIIO-ED1, Chapter 2.
[19] See table 5 page 18 of the June 2024 consultation document.

2.4 Upon review of companies' submissions, an efficiency and materiality assessment of the evidence provided suggested that discrepancies between outturn and allowance sat within the materiality threshold set out in the Closeout Methodologies Decision document and thus the LRR was not triggered for the following DNO groups: NPg, NGED, ENWL and SPEN. For SSEN and UKPN, the results of the 3G test and the quantum of additional LRE to be shared with consumers was heavily dependent on the estimated deductions associated with types of non-traditional solutions (and other closeout reduction areas) notified by each DNO company during the RIIO-ED1 period.

2.5 The result of our assessment process was to reduce the number of deductions admissible under the re-opener for both DNO companies[20], which led to the 3G test being passed for SSEH[21] and the UKPN group.

2.6 Our minded-to position is reproduced in the table below for information.

Table 2: Ofgem Minded-to position on DNOs proposed deductions

Licensee	Allowance (£m)	Outturn (£m)	Deduction (£m)	Underspend (£m)	Threshold (£m)	Pass Test?	Closeout return to users[22] (£m)
LPN	£352.1	£172.8	**£17.8**	£161.5	£77.9	**YES**	**£40.2**
SPN	£216.4	£119.5	**£10.8**	£86.2	£49.8	**YES**	**£17.8**
EPN	£360.5	£132.3	**£65.0**	£163.3	£81.8	**YES**	**£18.2**
SSES	£233.1	£149.3	**£36.9**	£47.0	£55.0	NO	-
SSEH	£131.0	£87.8	**£1.3**	£42.0	£30.7	**YES**	**£8.3**

Respondents' views

2.7 Three DNO groups (NPg, SPEN and ENWL) agreed with the outcome of the assessment process and our minded-to position that no adjustment to their allowed revenues for LRE should be made through the RIIO-ED1 closeout process. One DNO group (NGED) raised no issue with the approach taken in proposing that no adjustment should be made to their licensees under this mechanism.

[20] Please refer to paragraphs 2.15, 2.20-2.31 and Appendix 3 of the June 2024 Consultation document.
[21] SSES was deemed to pass the 3G Test.
[22] Closeout return to users captures the amount of underspend that will be shared with consumers as a result of the application of the LRR at closeout. This amount is shared through the application of the Totex Incentive Mechanism (TIM) and is additional to the underspend already shared through the TIM in its annual iterations.

2.8 The two remaining DNO groups - where we had proposed adjustment to allowed revenues for LRE to be made through the ED1 closeout process – commented on aspects of our assessment method and the basis of calculating the proposed adjustment values.

2.9 UKPN agreed with our minded-to position that it satisfied the 3G test across all its licensees and noted acceptance of the minded-to position to reject in full the innovation savings associated with the LPN Interconnection, Fun-LV and Loadshare projects. However, it disagreed with the proposal to discount the value of benefits and associated savings with three projects (Load Blinding Relays, Flexible Connections and Timed Connections) made as part of our initial assessment on the basis that they did not qualify as "innovative solutions" but transitioned to 'business as usual' (BAU) activities in the 2020/21 regulatory year. UKPN strongly disagreed, noting that the approach did not comply with the expectation or formal instructions and guidance of the RIIO-ED1 reporting framework.

2.10 SSEN did not comment specifically on our minded-to position but queried the quantum of LRE incorporated in our closeout calculation that qualified for offset treatment[23] and the impact of our decision not to take account of a number of projects within our assessment which it managed to deliver not through LRE but "via other drivers"[24].

2.11 We received further comment from NPg highlighting a concern over the transparency of our consideration of the extent to which specific areas of LRE met the established criteria for innovation and non-traditional solutions. Specifically, it challenged that:

- a clear justification was not provided to support a decision to allow innovative adjustments in full for UKPN and SSEN, and
- the commentary contained in appendix 1 of the June 2024 consultation document was unclear on the basis to reject or reduce values for innovative solutions (e.g. application of 2020/21 as year of BAU across a number of items).

[23] Solutions we considered to meet the criteria for innovation and non-traditional solutions and qualified to be considered as DNO avoided LRE.
[24] Schemes that were originally expected to be delivered through LRE but have actually been progressed and delivered as a result of 'non-load' drivers such as replacement or refurbishment activity.

2.12 SSEN raised three further points associated with our LRR assessment and matters set out in the "Other considerations"[25] section of our minded-to position, summarised below.

- A query on the interaction between the closeout process and the operation of the Totex Incentive Mechanism (TIM)[26], noting that the wording of the LRE closeout methodology does not consider a circumstance where a DNO has an LRE underspend and an overall Totex overspend. The belief is that a closeout approach that disallows "other driver" costs risks undermining the Totex approach to price controls and introduces a penalty for these costs - through the recovery of LRE underspend on top of the overall Totex overspend. It suggested that such an approach removes the incentive on companies to use overall allowances under the most appropriate and efficient drivers, which could adversely encourage spend in areas where DNOs consider the risk of cost recovery to be lowest (rather than most efficient);
- A concern around the proposal to reserve the right to reconsider any decision to accept our innovation savings for a fourth subsea cable to the Isle of Wight[27], in the event that they ask for funding for that cable in RIIO-ED2. It argued that this conditionality sets a precedent that Ofgem can take decisions outside of the closeout methodology, which is not good for regulatory certainty; and
- A clarification on our assessment of the disallowed costs associated with Green Recovery and whether the same principle has been applied consistently across the requests.

Our view on consultation responses

2.13 We have reviewed the points raised by the network companies as part of the consultation process and set out our views on each point below. Where we have decided to make amendment to our minded-to adjustment values we have explained our reasons and the impact.

UKPN

2.14 We note the acceptance of the minded-to position to reject in full the innovation savings associated with the LPN Interconnection, Fun-LV and Loadshare projects.

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[25] Page 21 of the June 2024 Consultation document.
[26] The TIM applies adjustments to the Totex figure used in the fast/slow money modelling of recalculated base revenue figures under the AIP.
[27] Paragraph 2.37 of the June 2024 Consultation document.

2.15 On the proposed deductions to the other LRE projects, based on the further explanation provided by the licensee and further consideration of the LRR ED1 closeout methodology and the relevant sections of the Regulatory Instructions and Guidance (RIGs), we remain of the view that the projects in question do fall within the definition of innovative solutions[28]. We acknowledge, however, that there is a separate challenge to corroborate our minded-to position that the application of an innovative solution has evolved into BAU practice within the duration of the RIIO-ED1 price control period.

2.16 Furthermore, we agree that our assessment must consider the nature of the company reporting for such solutions and the relevant definitions within Annex A of the RIIO-ED1 Regulatory instructions to determine an "innovative solution". From a reporting perspective, we recognise that reporting of the specific projects has occurred within the E6 Innovative Solutions Regulatory Reporting framework across all eight years of RIIO-ED1, confirming its reported status as "innovation". From a definitional perspective, we note that the term "innovative solutions" is applicable across the entire eight-year period which does not directly support an approach to potentially recategorise specific areas of LRE under the criteria for innovation and non-traditional solutions.

2.17 In light of the above, we have decided to revise our minded-to position on this matter and remove the discounts proposed in our minded-to position for these applicable projects and not to discount the consequences of innovation as if it were BAU. The impact of our decision for UKPN's three projects is set out in the table below.

Table 3: Ofgem decision on UKPN's "Innovative solutions" savings (excluding LBR for Busbar protection)

Licensee	**LPN**	**SPN**	**EPN**	**UKPN**
a. Load Blinding Relays	-	*6.0*	*4.9*	*10.9*
b. Flexible Connections	-	*0.1*	*31.4*	*31.5*
c. Timed Connections	*2.4*	-	-	*2.4*
Total	**2.4**	**6.1**	**36.3**	**44.8**

[28] ED1 RIGs, Annex A.

NPg

2.18 We disagree with the view that we have not set out a clear justification to support our minded-to decision rejecting the value of benefits/savings associated with the LRE projects of LV visibility and Flexibility Services. Our rejection of UKPN's and SSEN's non-compliant claims for avoided costs are detailed in chapter two and Appendix 3 (per project) of the June 2024 Consultation document. We also described how we have applied the applicable LRR closeout methodology in detail in Appendix 1 of the same document.

2.19 The remainder of the comment raised by this respondent regarding our approach to assessing "innovative solutions" has been addressed in our response above (paragraphs 2.14 – 2.17 above).

SSEN

2.20 In response to the point raised in relation to the calibration, design and operation of the TIM, we note that SSEN acknowledges that there is no specific wording giving effect to the respondents preferred approach. We agree with this and note that the Closeout Methodologies Decision document does not incorporate or directly extend to matters related to the calibration, design and operation of the TIM. We therefore remain of the view that there is no basis to consider SSEN's approach within the 3G test.

2.21 However, we understand that the broad observation being made relates to how the circumstance is managed (i.e. specifically the situation of an underspend in load related activity and a totex overspend overall) within the RIIO framework and the suggestion that disallowing "other driver" costs within the assessment of the LRR mechanism may be perceived to penalise a company under these very specific circumstances.

2.22 In response, we note the following:

- Within the LRR closeout methodology, only a LRE underspend of a specified magnitude triggers a potential clawback of LRE allowances (i.e. it does not apply to all values of LRE underspend or to a LRE overspend position);
- The basic purpose of the TIM is to drive efficiency across the portfolio of activity (i.e. at a totex level) and is agnostic to any particular category of cost incurred;
- The design of the RIIO-ED1 framework contains no principle of transferrable funding. Equally, it does not contain the scope or process for assessing materially equivalent outputs (or similar) delivered by different cost drivers,

including within the terms of the ED1 closeout methodology where this discussion takes place; and.

- For allowances to be transferrable to "other drivers" (non-load in this specific case) in the manner suggested by the respondent may be regarded as a re-opening of the RIIO-ED1 price control and amount to retrospective regulation and may potentially result in unintended consequences that ultimately harm consumers.

2.23 In light of the above, we have decided to maintain our minded-to position on this matter. As there is no specific wording in the ED1 Licence or methodology which takes account of "other driver" costs of this nature, there is no basis to include these costs within the 3G test.

2.24 On the matter of the Isle of Wight subsea cable, we remain of the view that our approach is in the consumers' interest and serves to insulate future consumers from costs that may be larger (or value of avoided costs that may be smaller) than have been communicated on the basis of current intelligence. In the unlikely event that such a circumstance were to arise, we will further consult on the approach to be applied.

2.25 We recognise and welcome the suggestion to continue engagement on this matter and to seek to avoid similar occurrences in the context of ED2 closeout to be addressed in the development of future guidance.

Green Recovery assessment

2.26 On the regulatory treatment of the costs of Green Recovery investment set out in the June 2024 Consultation document (Tables 3 and 6 and Appendix table A2.1), we have decided to proceed with our minded-to approach. We set out our reasons below.

2.27 We understand that the point raised by SSEN (bullet three of paragraph 2.12 above) is one of principle relating to the regulatory treatment of the "carry over" value associated with costs incurred in the delivery of the approved Green Recovery schemes transitioning between the ED1 and ED2 price control periods.

2.28 Our minded-to position incorporated a value of Green Recovery carry over into ED2 for UKPN based on information provided as part of the PAS. We arrived at our minded to figures as a result of our application of the Green Recovery Decision (the GR Decision document).[29]

[29] Decision on the RIIO-ED1 Green Recovery Scheme | Ofgem

2.29 The GR Decision document set out two outcomes in terms of our assessment of each DNO's Green Recovery work programme.

(i) Where a DNO had forecasted[30] not to exceed their RIIO-ED1 allowances in aggregate over the full 8-year price control period to 31 March 2023, new Green Recovery funding was deemed not to be required (and therefore consideration under CRC 3N was not anticipated to be required[31]), and

(ii) Where a DNO had forecasted to exceed their RIIO-ED1 allowances in aggregate over the full 8-year price control period to 31 March 2023, "new" funding was permitted to cover the cost incurred against approved Green Recovery schemes in ED1.

2.30 The GR Decision document also confirmed the broad assessment process to be applied at the end of RIIO-ED1 period.

(i) For DNOs who only use RIIO-ED1 underspend to fund delivery of approved Green Recovery schemes, the cap[32] under licence mechanism CRC 3N is set to zero, shielding DNOs in this situation from the TIM incentive for spending on Green Recovery. Only excess expenditure above the cap is subject to the TIM.

(ii) For DNOs who were permitted "new" allowances to fund delivery of approved Green Recovery schemes within the ED1 period, only expenditure above the cap is subject to the TIM (or forecast totex expenditure values made at the time of application, where these are higher[33]), exposing DNOs to TIM incentive for spending above the cap. Expenditure below the cap is not subject to the TIM.

2.31 The outturn value of expenditure incurred during the eight-year ED1 period was submitted through the RIIO-ED1 closeout process and subject to validation against the information provided through the Regulatory Reporting Process (RRP).

2.32 The table below replicates the values submitted. It shows that nine DNOs report expenditure to be below RIIO-ED1 allowances in aggregate over the full 8-year price control period to 31 March 2023.

2.33 For those DNOs where new Green Recovery funding was deemed not to be required[34], all are reporting expenditure below allowance (individual licence areas

[30] As included in the totex forecast in the 2019/20 RRP submission.
[31] In August 2021, a new uncertain costs category was introduced for the Green Recovery Scheme by a new licence condition CRC 3N (Arrangements to exclude Green Recovery Scheme Project Costs from the Totex Incentive Mechanism) in the ED1 Licence.
[32] The total cap for each licensee is specified in Appendix 1 of CRC 3N.
[33] This is the overall expenditure condition as noted in paragraph 8 of 3N: "*the requirement that Totex expenditure over the Price Control Period exceeds the value specified in Appendix 2*."
[34] Category (i) of paragraph 2.29.

of EMID, SWALES, SWEST, LPN, EPN and SPN). Since actual expenditure is below allowances the CRC 3N licence term delivers a value of zero and the treatment of TIM under the CRC 3N licence condition is not relevant.

2.34 For those DNOs where new Green Recovery funding was awarded[35], two are reporting expenditure below allowance (WMID and NPgY) and five are reporting expenditure above the aggregated value of ED1 totex allowance (NPgN, SPMW, SPD, SSES and SSEH).

2.35 As noted above, only expenditure above the cap is subject to the TIM. For SSEH, we observe that the value of ED1 expenditure marginally exceeds the cap and the application of the TIM under CRC 3N is therefore relevant. As part of the calculation we have deducted GR spend in outturn for SSEN as they had a new GR allowance.

Table 4: Totex allowance and spend by DNO (£m, 12/13 prices)

DNO	ED1Totex Allowance (£m)[36]	ED1 total expenditure (£m)[37]	Performance	Existing or New GR allowances (CRC 3N: Overall expenditure condition)	Value of Cap (TGRS term)
ENWL	1,873	1,725	-148.0 underspend	Existing (£1853m)	20.3
LPN	1,769	1,535	-234.0 underspend	Existing (£1767m)	8.4
EPN	2,565	2,347	-218.0 underspend	Existing (£2553m)	45.5
SPN	1,723	1,520	-203.0 underspend	Existing (£1720m)	12.2
EMID	2,109	2,082	-27.0 underspend	Existing (£2107m)	16.6
SWALES	1,089	1,047	-42.0 underspend	Existing (£1087m)	9.5
SWEST	1,707	1,645	-62.0 underspend	Existing (£1705m)	15.0
WMID	2,088	2,084	-4.0 underspend	New (£2126m)	18.0
NPgN	1,302	1,318	16.0 overspend	New (£1301m)	27.2
NPgY	1,733	1,722	-11.0 underspend	New (£1742m)	25.9
SPMW	1,727	1,807	80.0 overspend	New (£1802m)	27.8
SPD	1,558	1,588	30.0 overspend	New (£1574m)	33.9
SSES	2,347	2,381	34.0 overspend	New (£2344m)	26.4
SSEH	1,335	1,404	69.0 overspend	New (£1334m)	14.5

[35] Category (ii) of paragraph 2.29.
[36] Source RRP23, Tab M17
[37] Source RRP23, Tab M17. Values include Green Recovery spend.

2.36 As part of its closeout submission, UKPN has proposed that a designated value of Green Recovery (£37.8m) is "carried over" into the next price control period, to enable UKPN to fund the completion of the remaining approved schemes that it has been unable to deliver before 31 March 2023.

2.37 UKPN explains that this is intended to ensure that it does not benefit from under-utilised funding associated with the delivery of its approved Green Recovery schemes.

2.38 UKPN intends to make an adjustment to revenue via the RIIO-ED2 PCFM to ensure it is: (i) funded for the activity it has undertaken, and (ii) to remove any time value of money benefit accumulated by retaining any value of the expected activity required to deliver the schemes within the ED1 period.

2.39 To give effect to this, UKPN will seek to utilise the RIIO-ED2 PCFM to input this value (as a negative value) against the "Green Recovery carry-over" term in the RIIO-ED2 Price Control Financial Model (PCFM). We also note that UKPN has already set the "Green Recovery carry-over" term within the RIIO-ED2 PCFM to zero to mitigate the issue of potential double counting.

2.40 In terms of RIIO-ED2, the "carry over" term was incorporated in the ED2 PCFM to allow DNOs to identify and nominate a value to be recovered through the ED2 framework for work associated with the delivery of all their approved Green Recovery schemes. This process was established to recognise that where a licensee has started an agreed scheme in ED1, any costs that are incurred in ED2 would continue to flow through the funding mechanism. Our decision in the context of ED1 closeout does not alter this and the manner in which the DNOs utilise the Green Recovery carry over term remains unaffected.

2.41 Finally, we recognise that work is ongoing in ED2 across DNO licence areas to complete each of the approved Green Recovery investment programmes. We are developing a methodology process and assessment process in relation to ED2 close out and, as with ED1, will engage fully with DNOs in relation to this.[38]

Our decision

2.42 In evaluating the companies' original closeout submissions, the supplementary question (SQ) process, and updated information received through the response to

[38] This process will not constitute an ex-post efficiency assessment but will seek to: (i) establish the total costs incurred in the delivery of the approved schemes of each DNO, and (ii) enable the Authority to investigate and validate the nature and scale of costs reported and review evidence provided to demonstrate that the costs incurred were compliant (i.e. do not include entirely unrelated costs or costs which were so unreasonable no reasonable network company would have incurred them) and within scope for the approved schemes.

consultation, we have followed the methodology set out in Annex A of the Closeout Methodologies Decision document. We have determined whether the 3G test is triggered, whether costs are efficient, whether companies have articulated a needs case and, additionally, whether any innovative solution has been appropriately considered.

2.43 We have decided to proceed with the proposed adjustment values in all areas, except for removal of the proposed discounts for specific LRE projects across the licensees of UKPN (Table 5).

2.44 Our decision on the amount to be returned to customers for UKPN and SSEN is summarised in Table 6. The values and calculation are set out in the accompanying datafile.

2.45 The overarching principle of assessing LRE in this and future price controls is that expenditure in this cost category should be assessed with the LRE incurred and allowances given in the relevant Price Control Period (relevant to a prescribed timeframe) along with the methodology set out in the close out process for that Price Control Period.

Table 5: closeout reductions & non-traditional solutions deductions for UKPN (£m, 12/13 prices)

	LPN	**SPN**	**EPN**	**Total**
i. Green recovery carry over	4.7	1.3	31.8	**37.8**
ii. LV visibility	1.2	1.5	3.0	**5.7**
iii. Innovative savings *(sum of a-g)*	2.4	6.2	36.7	**45.3**
a. LPN Interconnection	-	-	-	*0*
b. Fun-LV	-	-	-	*0*
c. Load Blinding Relays	-	*6.0*	*4.9*	*10.9*
d. Load Share	-	-	-	*0*
e. Flexible Connections	-	*0.1*	*31.4*	*31.5*
f. Timed Connections	*2.4*	-	-	*2.4*
g. LBR for Busbar protection	-	*0.1*	*0.4*	*0.5*
iv. Flexibility savings	11.3	7.9	12.3	**31.5**
Total (i + ii + iii + iv)	**19.5**	**16.9**	**83.8**	**120.2**

Table 6: Ofgem decision on applicable adjustment values (£m, 12/13 prices)

Licensee	Allowance	Outturn	Deduction	Underspend	Threshold	Pass Test?	Closeout return to users
LPN	352.1	172.8	19.5	159.8	77.9	**YES**	**38.5**
SPN	216.4	119.5	16.9	80.0	49.8	**YES**	**11.7**
EPN	360.5	132.3	83.8	144.4	81.8	**YES**	**0.0***
SSES	233.1	149.3[39]	36.9	46.9	55.0	NO	-
SSEH	131.0	87.8[40]	1.3	42.0	30.7	**YES**	**8.3**

* Note that the adjustment value to be returned to customers for EPN is zero because of the impact of the revised value of deductions confirmed in Table 3.[41][42]

Next steps

2.46 Final adjustments will be made through RIIO-ED2 allowed revenues, and we will determine revised values for the purpose of the AIP.

[39] Note this outturn deducts GR spend from Table CV1 as required by Green Recovery decision paragraph 2.2. It does not deduct 'non-load' spend values reported in CV11. The is the same approach applied in June 2024.
[40] Note this outturn deducts GR spend from Table CV1 as above.
[41] Outturn LRE is below the value of LRE RIIO-ED1 allowance by £228.2m. The difference is more than 20% of the total LRE allowance of £360.5m. The amount already returned to customers in period via operation of TIM is calculated to be £106.6m (228.2*TIM%), which exceeds the total ED1 value to be returned to customers as a result of our methodology calculation incorporating the value of avoided costs (£106.1m), hence no further adjustment is warranted via closeout.

3. Net to Gross

This section sets out the results of our assessment and the value of adjustment in the area of Net to Gross.

Background

3.1 The Net to Gross assessment applies to the difference between the forecast percentage of customer contributions to reinforcement work, and the actual amount that is contributed. The ED1 price control settlement prescribed an expected range of Net to Gross ratios (Table 2 of CRC 5G), outside of which DNOs must provide an explanation for the circumstances that have led to this deviation.[43]

3.2 This approach can only take place where no adjustment is made under the Load Related Reopener as part of CRC 3G of the ED1 Licence.[44] This is because any adjustment there will account for any difference in expenditure (if applicable) from that set out in the allowance contained in the ED1 Licence, thereby meaning any additional adjustment on account of Net to Gross will result in a double counting of adjustments.

3.3 There is no simple mechanistic calculation that can be performed. Instead, as stated in our June 2024 Consultation document, a qualitative assessment has been completed based on the circumstances of each licensee. This considered all relevant information provided by the licensees to justify the reasons for deviation; including performance assessment submissions, narrative commentaries provided in support of the annual reporting process as well as additional information provided in response to points of enquiry and engagement through the closeout review process.

3.4 Using the information provided by the DNOs, we applied the methodology calculation[45] and established the licensees that had fallen outside the thresholds specified in table 2 of CRC 5G. The minded-to position is summarised below.

- **SHEPD and LPN**. In accordance with the Closeout Methodologies Decision document, as both are subject to a proposed adjustment under the LRR mechanism, we did not perform an assessment of the circumstances for the deviation and did not propose to make any net-to-gross relevant adjustments.

[43] Paragraph 9 of CRC 5G specified the type of information required within the report.
[44] Paragraph 7 of CRC 5G.
[45] The methodology is provided in Annex B of our Closeout Methodologies Decision document. Further detail of our calculation approach is set out in paragraphs 3.8 and 3.9 of the June 2024 consultation document.

- **NGED (East Midlands) and SPD.** In accordance with the Closeout Methodologies Decision document, as both are not subject to a proposed adjustment under the LRR mechanism, we reviewed the explanation and justification provided for the circumstances that led to each licensee's deviation and concluded that each company had provided adequate justification.

Respondents' views

3.5 Three respondents provided comment on the calculation or proposed adjustments.

- UKPN and SSEN did not challenge our minded-to position, i.e. as the licensee is subject to an adjustment under the LRR, no additional adjustment needs to be undertaken under this mechanism.
- NPg agreed that the assessment method we used and the underpinning logic of the calculation appeared reasonable, although noted that the calculation used was not its preferred method.

3.6 SSEN made two further observations:

a) the level of detail made available in the June 2024 Consultation document on those DNOs that fell outside the banding and who did not trigger LRR, offered only limited insight.

b) to avoid a repeat of differing methods of calculation being utilised between licensees due to a lack of prescribed calculation method provided in the RIIO-ED1 methodology[46], and looking ahead to ED2 closeout, the accompanying methodology should set out what is included in the Net to Gross calculation.

Our views on consultation responses

3.7 We note the support for the calculation method employed (as detailed in paragraph 3.8 of the June 2024 Consultation document) and the results of the assessment.

3.8 On the further points raised, our views are as follows:

a) As set out in the ED1 Licence, we may assess whether DNOs have justified their final proportion of LRE that is funded by customers in relation to the percentage that was defined at the start of the price control period. Our

[46] Paragraph 3.7 of the June 2024 consultation document.

review process considers the data and justification provided by each licensee and any qualitative assessment of the circumstances applicable to each licensee and determines whether the justification provided was adequate.

In reaching our decision about whether a relevant adjustment is required, we considered the range of factors specified in paragraph B.10 of Annex B of the Closeout Methodologies Decision document and assessed information provided of the type specified under paragraph 9 of CRC 5G.

The review was performed on a consistent and comparable basis. The information and explanation provided by those licensees that fell outside the banding and who did not trigger LRE was considered to meet the requirements of the Methodology and ED1 Licence.

b) We agree that, to the extent possible, any future guidance should provide clarification on the appropriate calculation approach to seek to minimise the level of interpretation and differing methods of calculation being utilised between licensees.

Our decision

3.9 We have implemented the methodology as provided in Annex B of our Closeout Methodologies Decision document.

3.10 We have decided to make no change to the adjustment values for those the licensees that had fallen outside the thresholds specified in table 2 of CRC 5G.

4. High Value Projects

This section explains the value of adjustment associated with High Value Projects re-opener mechanism under CRC 3F of the ED1 Licence. This process applies to the DNO groups of UKPN, NPg and SSEN.

Background

4.1 In the June 2024 Consultation document, using the information provided by the DNOs in their data submissions, we established the value of efficiently incurred expenditure recoverable through the High Value Project (HVP) mechanism[47] across all outstanding claims and proposed a set of minded-to adjustment values.

4.2 The result of our assessment process was to award a £22.07m downward financial adjustment to LPN's HVP claim request and £14.49m downward financial adjustment to SPN's HVP claim request. Our minded-to position also offered no proposed financial adjustment for the claims of EPN or NPg. The values are set out in the table below.

Table 7: Minded-to-adjustment values[48] (£m, 12/13 prices)

Licensee	ED1 TOTAL (£m)
LPN	22.07
SPN	14.49
EPN	0.00
NPgY	0.00

Respondents' views

4.3 We received three responses (UKPN, NPg and SSEN) to our minded-to adjustment values which are summarised in Table 8.

4.4 ENWL, NGED and SPEN did not receive an allowance for HVPs in ED1 so a reopener assessment is not applicable. They therefore did not comment on this and took no issue with this position.

[47] Following the tests for adjustment set out in paragraphs A1.2 and A1.3 of CRC 3F of the ED1 Licence.

[48] Downward adjustments (i.e. clawback of allowance) are indicated by positive numbers and upward adjustments (i.e. DNO to receive additional allowance) are indicated by negative numbers.

Table 8: DNO's proposed adjustment values (£m, 12/13 prices)

Licensee	ED1 TOTAL (£m)
LPN	20.54
EPN	0.00
SPN	0.00
SSES	0.00
NPgY	-3.44[49]

UKPN

4.5 UKPN disagreed with our minded-to approach that the use of RIIO-ED1 allowances to complete in-flight projects in the RIIO-ED2 period should not be factored into the closeout assessment.[50]

4.6 UKPN stated that our minded to position is in direct opposition to the precedent set by Ofgem's DPCR5 closeout decision. UKPN stated that "*Ofgem allowed DNOs who had inflight projects that were clearly going to be delivered to retain the forecast spend required to finalise these projects and exclude[d] the associated underspend from our [their] assessment".*

4.7 UKPN said the assessment approach we have applied is inconsistent with the ED1 Licence and published closeout methodology. UKPN referred to Special Condition 3F.8(a) being "*based on information about the actual or forecast level of efficient expenditure*" and that the closeout methodology says that Ofgem's initial analysis will be based on the "*actual or forecast level of High Value Project Costs*". UKPN claim that in both instances the word "*forecast*" emphasises that RIIO-ED1 allowances forecasted to be spent in the RIIO-ED2 period are relevant within the RIIO-ED1 closeout.

4.8 UKPN did not request any RIIO-ED2 allowances to complete RIIO-ED1 HVPs. UKPN claimed that they relied on the expectation and understanding set out in the points above. UKPN state that this was highlighted to Ofgem in their RIIO-ED2 Business Plan Data Template Commentary, submitted in December 2021 and that if Ofgem were not of this view, this should have been communicated at the time.

[49] We note that in table 8 (page 35) of the June 2024 Consultation document the negative sign was inadvertently missed from this value, although the cumulative 'Total' value was stated correctly.
[50] Paragraph 4.17 of Ofgem's RIIO-ED1 Closeout Consultation on proposed Adjustments

4.9 UKPN claimed that there is currently no defined mechanism to recover this forecasted expenditure. UKPN state that Ofgem have suggested that any RIIO-ED2 expenditure on RIIO-ED1 HVPs should be dealt with during the RIIO-ED2 closeout but as the RIIO-ED2 closeout methodology is yet to be defined this puts UKPN at risk of being underfunded to complete these projects.

4.10 In addition, UKPN agreed that it was in customers interests to continue with this HVP assessment for the reasons we set out in the "Other considerations" section in the June 2024 Consultation document.[51] UKPN highlighted that they are making a concession in allowing this and expect us to follow the ED1 Licence, guidance and regulatory precedent when undertaking the assessment, in line with their reasoning on the use of RIIO-ED1 allowances to complete in-flight projects in the RIIO-ED2 period presented above.

4.11 UKPN stated that if we "*continue to pursue our minded-to position, we will be compelled to report any RIIO-ED2 expenditure on RIIO-ED1 HVPs on load or asset replacement tables as part of our annual regulatory submissions. This would also mean claiming any associated benefit from doing so within the RIIO-ED2 period (i.e. NARMs*[52] *risk points). However, if, as we suggest, you reconsider your position and factor forecasts into the RIIO-ED1 closeout assessment, we would then restate our submission in future years and place RIIO-ED2 expenditure on RIIO-ED1 HVPs on the HVP regulatory reporting tables*."

4.12 In addition UKPN stated that "*if we maintain our minded-to position this would leave UKPN materially underfunded to complete affected projects and (as with the minded-to position on the Load Related Reopener) would signal a change to retrospective regulation*".

4.13 UKPN requested that we reconsider our position, reassessing the closeout with ED2 forecasts included resulting in "*the total figure to be returned to customers by UKPN as part of the HVP closeout assessment being set at £10.9m*".

NPg

4.14 NPg disagreed with our minded-to approach not to allow any adjustments and claimed that an error was made in assessing the NPgY licensee HVP project at

[51] Paragraphs 4.30 to 4.34 of the June 2024 Consultation document provided the rationale for assessing HVPs when a literal reading of the Special Condition CRC 3F of the ED1 Licence would indicate that there is no opportunity for the Authority to notify or execute adjustments to allowed expenditure for HVPs as the application window for giving notice of such an intention falls only between 1 December 2023 and 31 December 2023.
[52] Network Asset Risk Metric.

Doncaster that was started in DPCR5 by using NPgY's overall figures for allowed revenue and expenditure in calculating if any adjustments should be made.

4.15 NPg claim that the ED1 Licence condition does not allow for an assessment of the NPgY Doncaster HVP allowed revenue and expenditure from DPCR5 and ED1 and that this error underfunds NPgY by £3.44m.

4.16 NPg state that the tests set out in Appendix 1 of the Special Condition CRC 3F of the ED1 Licence must be applied to the ED1 allowed revenue and expenditure only and that Ofgem has no discretion to depart from this.

4.17 NPg state that they applied the tests set out in Appendix 1 of the Special Condition CRC 3F of the ED1 Licence for NPgY using only the ED1 revenue allowances and spend as shown in the extract from their consultation response in Table 9 below.

Table 9: NPg's HVP claim calculation

Closeout Assessment	**NPg submission[2] NPgY[2]**	**Ofgem View[3] NPgY[3]**
HVP Allowance (a)	10.73	30.54
HVP Actuals (b)	24.77	33.98
Overspend/(underspend) (c) = (b-a)	14.04	3.44
Closeout reductions:- ED2 Forecast (d)	-	-
HVP underspend after closeout reductions (e) = (c-d)	14.04	3.44
Materiality Amount (f)	5.86	5.86
20% of Allowance (g)	2.15	6.11
Threshold to Pass 3F Test (h)	8.01	11.97
Pass 3F test?	**TRUE**	**FALSE**
Closeout Adjustment (e + f)	**3.44**	**-**

[2] *NPg view of NPgY applies 3F test for ED1 allowance and actuals and claims closeout adjustment based on the combined DPCR5 and ED1 allowances and actuals.*

[3] *Ofgem view of NPgY shows combined DPCR5 and ED1 allowances and actuals.*

4.18 NPg claim that having established the test is triggered using only the ED1 revenue allowances and spend, that the calculation of any adjustment to NPgY's allowed revenue should then take account of the projects overall allowed revenue and efficient costs from both DPCR5 and ED1 and that NPgY should receive a

£3.44m increase (see embedded footnote 3 in the Table above derived from the Ofgem view of combined DPCR5 and ED1 revenue allowances of £30.54m and actual spend of £33.98m).

4.19 NPg proposed that this approach would be a reasonable outcome as they stated that a straightforward application of the ED1 Licence condition in its entirety (using only ED1 allowed revenue and expenditure) would result in an increase in NPgY's allowed revenue by £11.89m (ED1 overspend of £14.04m less the deadband 20% of allowance of £2.15m)

4.20 NPg claim that Ofgem cannot revisit the tests applied using only the ED1 revenue allowances and spend and apply the combined DPCR5 and ED1 revenue allowance and spend to determine that NPgY should not receive any additional funding as it is under the materiality threshold.

SSEN

4.21 SSEN stated that they were surprised to see the HVP mechanism included in the consultation even though the SEPD licensee HVP did not trigger the closeout mechanism for HVPs as their final costs fell within the required spend.

4.22 SSEN acknowledges our view that its HVP assessment and proposed adjustment under HVP is to protect the interests of consumers but SSEN expressed concern that there was no communication of this when the notice period for any adjustments closed in December 2023.

4.23 SSEN stated that going forward the timelines in the ED1 Licence should be followed.

4.24 For RIIO-ED2 and RIIO-ED3 SSEN asked Ofgem to invest time early in RIIO-ED2 to set out a detailed methodology for RIIO-ED2 closeout and follow the processes and timelines which are set (either in the licence or associated methodology) to remove any uncertainty on the requirements and expectations of DNOs.

Our view on consultation responses

4.25 We have reviewed the points raised by the network companies as part of the consultation process and we have decided not to change our minded-to-adjustment values as set below.

UKPN

4.26 We disagree with the UKPN view that the use of RIIO-ED1 allowances to complete in-flight projects in the RIIO-ED2 period should be factored into the closeout assessment and we reiterate the point made in our June 2024 Consultation document[53] that the RIIO-ED1 price control being 'closed out' covers only outturn spending relating to the previous electricity distribution price control period which ended on 31 March 2023.

4.27 Therefore any forecast expenditure for ED2 should be included in the ED2 price control and assessed as part of the ED2 closeout process. By including the expenditure in the ED2 price control process will therefore ensure that there is no underfunding for UKPN as this can be allowed for in the ED2 process.

4.28 We address the separate points made by UKPN in their consultation response below.

4.29 We disagree with the UKPN claim that our minded-to position is in direct opposition to the precedent set by Ofgem's DPCR5 closeout decision. The DPCR5 closeout decision did not represent a precedent to allow DNO's to retain forecast spend required to finalise these projects in the following price control period. The DPCR5 closeout decision was a specific exception allowed in DPCR5 due to "*some DNOs experiencing significant delays with a number of HVPs*[54]". No such provision exists in the ED1 closeout methodology and the exceptional allowance in DPCR5 did not establish a precedent.

4.30 We disagree with the UKPN claim that our minded-to approach is inconsistent with the ED1 Licence and published closeout methodology. Our view is consistent with the ED1 Licence and the Closeout Methodology Decision document as set out below:

- While Special Condition 3F.8(a) states that "*the proposed change to the level of allowed expenditure is based on information about the actual or forecast level of efficient expenditure*", this is in the context of Special Condition 3F.8 that the allowed level of expenditure is "*for any Regulatory Year during the Price Control Period*". This limits the level of forecast expenditure to the Price Control period for ED1 only, and
- The RIIO-ED1 closeout methodology[55] refers to actual or forecast expenditure in relation to the information submitted by the licensee in order to determine the requirements for the licensee's Performance Assessment Submission (PAS) to be assessed by Ofgem. This assessment will be of each individual HVP that was carried out in the Price Control Period[56].

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[53] Paragraph 4.17.
[54] Paragraph 2.20 DPCR5 Close out: Consultation on proposed adjustments
[55] Paragraph D.3 Decision on the closeout methodologies for RIIO-ED1
[56] Paragraph F.34 Decision on the closeout methodologies for RIIO-ED1

4.31 While UKPN did not request any allowances for RIIO2-ED2 to complete any HVPs from the RIIO-ED1 period, any funding requirements can be assessed as part of the ED2 close out process when the HVPs expenditure is known.

4.32 While UKPN state that there is currently no defined ED2 mechanism to recover this forecasted expenditure it is anticipated that there will be opportunity to request this as part of their submission for the ED2 closeout consultation (the process is under development). This is an issue to be considered as part of the ED2 process. It is outside the remit of the ED1 closeout methodology as it relates to spending in ED2.

4.33 We disagree with the UKPN view that our minded-to position "*signals a change to retrospective regulation*". As explained above, the DPCR5 allowance of forecast spend into ED1 was an exceptional decision made as part of the DPCR5 close out and does not set a precedent for future regulation as the ED1 close out methodology is limited to the ED1 Price Control period and therefore there is no change to "*retrospective regulation*".

4.34 We believe that we have correctly implemented the methodology as provided in Annex D of the Closeout Methodology Decision by not allowing any ED2 forecast spend and that our minded to adjustment values in the consultation are in the best interests of customers.

NPg

4.35 As set out in our ED1 close out consultation[57], whilst the approach we have adopted in our minded-to position for the NPgY Doncaster HVP is not prescribed in either DPCR5 or ED1, we believe that there is a clear justification for using the "whole life" approach when making this decision. Furthermore, NPg have adopted a "whole life" approach in arriving at the £3.44m of additional allowance that they have requested by taking the combined allowances and spend for both DPCR5 and ED1 in deriving this value from their consultation response shown above in Table 9 (Ofgem view column - HVP Actuals (b) less HVP Allowance (a)).

4.36 The point raised by NPg of taking into account only ED1 allowed revenue and spend for the NPgY Doncaster HVP would not be appropriate or efficient as it does not take account of the DPCR5 spend of £9.21m already incurred on this project. The delay and additional spend needed to complete the NPgY Doncaster HVP and the decision to exclude any underspend until the HVP was finalised had already

[57] Paragraph 4.22 of the June 2024 Consultation document.

been indicated in Table A3.7 of the DPCR5 consultation (extract reproduced below).

Licensee	Project	Description	Ofgem View
NPgY	Doncaster Thorpe Marsh	The aim of this project was to increase network capacity around Doncaster. The original scheme proposed required works by National Grid Electricity Transmission (NGET). NPgY re-engineered the scheme when NGET's costs became uneconomical.	No outputs gap We consider that NPgY's decision to change the scope of the project addresses the need while being in the interest of customers. We note that this has resulted in delays and the project will be completed in the ED1 period. We note that NPgY are being funded for this project in ED1 – however, there is no double-funding of the project

4.37 An approach of considering ED1 allowances and spend only would unfairly penalise customers by resulting in an increase in NPgY's allowed revenue by £11.89m which would not reflect the overall position of this HVP with regard to its revenue allowances and spend over the life of the project.

4.38 The option NPg presents for the NPgY Doncaster HVP is to take the combined DPCR5 and ED1 allowed revenue and spend to derive the £3.44m overspend (see embedded footnote 3 in Table 9). NPg does not however then apply any materiality amount in assessing the CRC 3F test. By applying the ED1 Materiality Amount[58] of £5.86m it can be seen that the test required in Appendix 1 of Special Licence Condition CRC 3F is not triggered (as the overspend of £3.44m is less than the Materiality Amount of £5.86m) and therefore no adjustment to allowances are required for this HVP.

4.39 We do not agree with the view that we are revisiting the tests from the first step of determining if the test is triggered. As set out above, our view remains that we have applied a consistent approach in applying a materiality test and it is appropriate in this case to consider the combined "whole life" of the NPgY HVP allowances and spend for the NPgY Doncaster HVP to be completed in ED1 with a new allowance as was anticipated in the DPCR5 close out consultation on proposed adjustments (see Ofgem view column in Table A3.7 of the of the DPCR5 consultation in the extract shown above).

[58] There was no Materiality Amount for DPCR5, the materiality test was carried out in a different way by the application of the DPCR IQI Incentive Rate of 1% of DPCR5 base revenue.

4.40 We remain of the view that we have correctly applied the methodology in Annex D of the Closeout Methodology Decision and that this overall approach is justified, reasonable and is in consumers' interests. Combining the DPCR5 and ED1 allowances and expenditure for the NPgY Doncaster HVP resulted in an overspend of £3.44m and no financial adjustment is required.

SSEN

4.41 We welcome SSEN's acknowledgement that our assessment of HVPs in the ED1 closeout is to protect consumers interests.

4.42 We have set out further guidance on our ED1 HVP closeout methodology rationale and principals to be applied in assessing HVPs in future price controls below to provide further clarity and address the point made by SSEN in their consultation response on removing uncertainty on the requirements and expectation of DNOs.

HVP closeout methodology rationale

4.43 We have set out below our rationale behind our ED1 closeout methodology assessment and application. This considers and compares the Ofgem decision on the two DNOs that challenged our consultation minded-to position for HVPs. We believe that this shows that our ED1 Closeout Methodology approach has been consistent in our treatment of DNO's HVPs.

UKPN

4.44 Ofgem has treated the UKPN ED1 HVP closeout methodology proposal consistently with the ED1 Closeout methodology and the licence obligations. This is demonstrated by Ofgem not allowing forecast ED2 spend claimed by UKPN that has not yet been finalised. This is consistent with the ED1 closeout methodology that requires Ofgem to consider only the spend and allowances in ED1. Future forecast spend can be addressed by UKPN in ED2 where UKPN can request funding to ensure that its HVP projects are not underfunded. UKPN has the opportunity to signal this intent in the forthcoming consultation on the ED2 close out methodology.

NPg

4.45 The NPgY Doncaster HVP was a rare exception set out in the DPCR5 close out consultation to allow spend from a previous price control to be assessed with a new ED1 allowance that had been agreed in DPCR5 due to the changing scope of this HVP.

UKPN and NPg comparison

4.46 The key differences - between the DNO's (UKPN and NPg) HVPs regarding our consideration of their revenue allowances and expenditure is summarised in table 10.

Table 10: UKPN and NPg differences in our consideration of HVP

Description	UKPN	NPg
HVP considers past price control (DPCR5 exception)		✓
HVP considers future price control (not allowed in ED1 closeout methodology)	✓	
Spend is known for certain so outputs and efficiency can be established		✓
HVPs still ongoing into ED2 so outcome and efficiency not yet known	✓	
Ofgem decision based on DPCR5 decision that specifically allowed for NPg to be carried forward to next price control		✓
ED1 close out does not have any methodology to allow UKPN to forecast spend into the next price control to be included	✓	
Decision is not establishing a regulatory precedent		✓

4.47 We believe that that while there are justifiable differences between the claims of the two DNOs that challenged our consultation minded-to position for HVPs, as set out in Table 10, our approach in applying the methodology in Annex D of the Closeout Methodology Decision in only considering revenue allowances and expenditure within the ED1 Price Control period is consistent and reasonable and in the interests of customers.

4.48 The HVPs being progressed by UKPN are still ongoing in ED2 and therefore their outcome and efficiency cannot be determined in ED1 in accordance with the ED1 closeout methodology which considers only the spend and allowances in ED1.

4.49 For the NPgY Doncaster HVP, the DPCR5 decision that specifically allowed for forecast spend to be considered in ED1 was an exceptional one made as part of the DPCR5 close out and does not set a precedent for future regulation.

4.50 In the absence of a materiality test tailored for the particular circumstances of the Doncaster HVP, our approach applies the established test set out in Appendix 1 of CRC 3F. This is opposed to the methodology NPg propose. Furthermore, we consider it appropriate to apply the established test on the grounds that it is consistent with the requirement that our calculation process adheres to the use of a threshold and to disapply the test entirely would be unjustified and unfairly penalise customers.

Our decision

4.51 Having reviewed the responses from the DNOs to our consultation, for the reasons given above we have decided not to change our minded to position with regard to HVP allowances. Our decision on the adjustment values is presented in the table below.

Table 11: Decision adjustment values (£m, 12/13 prices)

Licensee	ED1 TOTAL (£m)
LPN	22.07
SPN	14.49
NPgY	0.00

4.52 The decision adjustment values are different to the adjustments proposed by the DNO's in their PAS and consultation responses for the reasons given in our assessment of their consultation responses above and in the June 2024 Consultation document.

Next steps

4.53 Final adjustments will be made through RIIO-ED2 allowed revenues, and we will determine revised values for the purpose of the AIP.

5. Network Asset Secondary Deliverables

This section confirms our adjustments for secondary deliverables within the RIIO-ED1 period. This chapter applies to all DNOs.

Background

5.1 As part of the RIIO-ED1 price control review, each DNO provided forecasts of their asset health and criticality positions 'with intervention' and 'without intervention'. We used these to set out the improvements in asset health and criticality required of each DNO's asset base during the price control. This is referred to as the Network Asset Secondary Deliverables (NASD) Target Risk Delta.

5.2 We implemented the methodology as provided in Annex C of the Closeout Methodologies Decision document.

5.3 We proposed to make no adjustments to any DNO group.

Respondents' views

5.4 DNO groups raised no issue with the approach taken in proposing that no adjustment should be made to their licensees under this mechanism.

Our decision

5.5 We have decided to make no adjustments to any DNO group. Our assessment of the evidence provided suggests that discrepancies between the target and delivery sits within the expected deadband and we have established that all licensees have delivered their NASD target in RIIO-ED1.

6. Link Box Volume Replacement

This section explains the results of our assessment and the value of adjustment associated with the volume of Link Box Replacement Delivered within the ED1 price control period. This chapter applies to the licensees of SPMW and SPN only.

Background

6.1 The RIIO-ED1 framework for electricity distribution networks included a number of uncertainty mechanisms for costs that were uncertain at the time of establishing the final determinations. This included re-opener mechanisms, which enabled adjustments (up or down) to DNO allowances to accommodate costs associated with specific uncertain cost categories. These mechanisms were set out in special condition CRC 3F[59] of the ED1 Licence.

6.2 Link Box Costs[60] was one such uncertain cost category, specifically the costs incurred or expected to be incurred by the licensee in efficiently managing the asset risk associated with Link Boxes.

6.3 In terms of RIIO-ED1 closeout, we are therefore permitted to make a determination as to whether an adjustment to allowed expenditure should be made where the licensee has not delivered its Allowed Link Box Replacement Volumes[61], subject to the materiality threshold being met.

6.4 Any proposed adjustment will be calculated using the volume not delivered multiplied by the unit cost values specified in Table 8.5 of the PCF Handbook.

6.5 Using the information provided by the DNOs in their data submissions, we proposed no revision to the UCLB[62] value in the PCFM for both SPMW and SPN as both met the allowed volume target in the June 2024 Consultation document.

Respondents' views

6.6 UKPN agreed that, as SPN has over-delivered on its target replacement link box volumes, no adjustment is required.

6.7 SPEN agreed with our assessment approach and minded-to position not to make any adjustments to allowances. Furthermore, it agreed that where the delivered replacement volumes are met or exceed the allowed volumes, then no adjustment will occur in the ED1 closeout process.[63]

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[59] Charge Restriction Condition 3F: Arrangements for the recovery of uncertain costs.
[60] The term "Link Box Costs" means costs incurred, or expected to be incurred, by the licensee in efficiently managing the asset risk associated with Link Boxes. The definition is set out in CRC 3F.
[61] Actual RIIO-ED1 Link Box Replacement Volumes - Allowed RIIO-ED1 Link Box Replacement Volumes is <0.
[62] As noted in Table 1: Categories of cost related to uncertain cost activities and associated PCFM Variable Values in CRC 3F, this term relates to uncertain Link Box Costs values.
[63] See paragraph 6.9 of the June 2024 Consultation document.

Our decision

6.8 We have implemented the methodology as provided in Section 5 of our Closeout Methodologies Decision document and paragraphs 8.38 to 8.47 of the PCF Handbook.

6.9 We have decided to make no adjustments to any DNO group.

7. Specified Street Works Costs

This section explains the results of our assessment and the value of adjustment associated with the delivery of Specified Street Work activity within the ED1 price control period. This applies to the DNO Groups of UKPN, NGED, SPEN and NPg.

Background

7.1 The network activities undertaken by DNOs sometimes require work to be conducted on roads and highways to access their assets; this is referred to as street works. When DNOs carry out street works, they must comply with the relevant legislation and incur costs in doing so.

7.2 A specific methodology dedicated to closing out Specified Street Works Costs once the price control ended to account for its uncertain nature (the "SSWC Decision") was published in March 2021.[64]

7.3 This methodology enables DNOs to submit applications for any efficiently incurred SSWC that were not funded through our re-opener decision in 2019[65] or as part of ex-ante allowances[66].

7.4 The results of our initial benchmarking assessment are summarised in the table below.

Table 12: Summary of proposed adjustment values

DNO	Licensee	Ofgem proposal	Request
UKPN	**EPN**	**-**	1.59
NGED	**EMID**	**4.05**	4.37
NGED	**WMID**	**7.03**	7.37
SPEN	**SPMW**	**1.06**	1.06
NPg	**NPgN**	**6.88**	8.53

Respondents' views

7.5 We received five responses to our consultation questions on street works costs. While most companies broadly supported the methodology we used for determining allowance adjustments, some have suggested changes in a number of areas, including:

[64] Decision on the RIIO-ED1 closeout methodology for Specified Street Works Costs ("SSWC") | Ofgem
[65] Decision on RIIO-ED1 price control reopeners (submissions made during May 2019 window) | Ofgem
[66] See paragraph A2.8 of appendix 2 to the 2019 SSWC re-opener.

- The application of a 3% efficiency challenge;
- The treatment of permit variation volumes in allowance calculations;
- The methodology underpinning permit conditions unit cost; and
- The treatment of NPgY and SWEST.

7.6 UKPN, NPg and NGED criticised our decision to retain the 3% efficiency challenge to street works modelled costs that was introduced as part of the 2019 iteration of the close-out. Network companies argued that in 2019 the efficiency challenge was only applied to forecast years (2020-2023) for which no actual data was available at the time. According to them, the presence of outturn data for 2020-2023 offers a more realistic view of efficiencies that have been achieved over time. Imposing an additional 3% efficiency challenge would lead to a double application of the challenge and a rejection of the trends revealed by outturn data.

7.7 UKPN criticised the treatment of permit variations in our methodology. UKPN stated that in 2019 Ofgem volumes and costs associated with permit variations were utilised in the derivation of the unit cost. UKPN also stated that this unit cost was applied to actual volumes of permit and permit variations for the first four years of ED1, as a way to recognise that permit variations are sometimes outside of companies' control. UKPN stated that in our minded-to position we have omitted permit variation volumes for the first four years of the price control period and that this is inconsistent with the "*design and intent*" of the 2019 methodology.

7.8 NPg suggested a different approach to calculating permit conditions unit costs. NPg argues that permit conditions unit costs can be very different by DNO and condition type. Relying on a flat unit rate per permit would then fail to appropriately capture this differentiation and "*significantly and unjustifiably disadvantage DNOs that have been required to implement higher cost conditions*". NPg also stated that Ofgem has not considered the funding request put forward for NPgY.

7.9 NGED argues that SWEST should not be included in the benchmarking calculations as no claim for proposed adjustments has been put forward for this company as part of the 2023 iteration of the close out and given that the 2019 re-opener claim was put forward only at a time when the benchmarking methodology was unknown.

Our views

7.10 We have reviewed the points raised by network companies as part of the consultation process and we have decided to:

- Remove the application of the 3% efficiency challenge;
- Retain our minded-to position on the treatment of permit variations and permit conditions;
- Retain SWEST as one of the comparators used for benchmarking; and
- Provide an allowance for NPgY.

7.11 We disagree with UKPN's point on permit variations. In our minded-to position, we were consistent with the 2019 methodology. In 2019, we did not apply the unit cost to both permit and permit variations for the first four years of RIIO-ED1. Permit variations volumes were excluded in its entirety from the application of the unit costs. This is apparent from the inspection of the formulae underpinning the Street Works Costs model published in 2019.[67]

7.12 Permit variations costs were not excluded for the first four years of RIIO-ED1 for the determination of the unit cost to recognise that some levels of permit variations can be outside of DNO control but also that in the majority of cases permit variations are avoidable.[68]

7.13 We have assessed NPg proposal to change the unit cost methodology for permit conditions but have decided to retain our minded to position. We do acknowledge that permit conditions can show significant variation by DNO and type of condition and that a flat rate does not maximise reflectivity with this variation.

7.14 However, our guiding principles for the entire close out process has been to maximise consistency with the 2019 methodology. Our minded-to position determines adjustments on a residual basis, comparing modelled costs over RIIO-ED1 against allowances given in 2019 and providing adjustments for the difference.[69] In this sense, our SSWC adjustments are effectively a second iteration of those given in 2019. Given this link, we consider it fundamental to ensure that our adjustments are derived as much as possible on a like for like

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[67] Appendix 1: Supplementary supporting analysis file to RIIO-ED1 Reopener Decision - Specified Street Works Costs.xlsx, tabs ENWL, NPg, SPEN, UKPN, WPD rows 13 and 16.
[68] Ofgem (18 October 2019), RIIO-ED1 Reopener Decision – Specified Street Works Costs, paras 4.7-4.8. Government Actuary's Department, Ofgem – Specified Street Works Costs Reopener Assessment (2nd October 2019), p.4.
[69] The assessment of Street Works Costs has substantially changed since 2019. Ahead of ED2 FD, Ofgem moved on from benchmarking and relied on growth rate factor and ratchet mechanisms. Despite this change, we have decided to implement the 2019 benchmarking methodology for the second iteration of ED1 close-out to ensure continuity with the previous assessment.

basis with those given in 2019. We have retained our minded-to position approach to ensure consistency with the first iteration of the assessment done in 2019.

7.15 We disagree with NGED suggestion to remove SWEST from the benchmarking. We have included SWEST in the benchmarking as we see the value of having the largest possible sample of companies that have applied for adjustments under the 2019 or 2023 iterations of the close-out. As NGED has not provided evidence demonstrating that the inclusion of SWEST is incorrect, we have retained our minded to position.

7.16 In September 2023 NPg submitted a notice of "*ED1 close out adjustment for Specified Street Works Costs proposed by Northern Powergrid (Northeast) plc*". As part of this notice, a few paragraphs were included in an Appendix setting out NPg's understanding of why they were not entitled to propose adjustments for NPgY. As part of the consultation process it became apparent that NPg's understanding was incorrect and, on this basis, NPg clarified that they were proposing adjustments for NPgY as well. We have reviewed the available evidence and have made a decision on the proposed adjustment for NPgY, applying our minded-to position approach amended in light of the changes discussed in this chapter.

Our decision

7.17 As discussed in paragraph 7.10, we have amended our minded to position on two aspects: we have removed the 3% efficiency challenge and we have included NPgY amongst companies' requesting adjustments.

7.18 Our decision is presented in Table 13. The removal of the 3% efficiency challenge increase adjustments for most firms in the sample. Adjustments for EMID and WMID match those requested by NGED, adjustment for NPgN increase to £7.40m, whilst no adjustment is made for EPN as modelled costs are below the allowance given in 2019.

7.19 NPgY will receive a £1.42m adjustment, compared to the £10.58m requested by NPg. This discrepancy reflects differences between our methodology and NPg's. Notably:

- As discussed, NPg relies on a disaggregated averaging method for permit conditions which increases permit conditions' unit costs for NPgY compared to our approach; and

- NPgY's unit cost calculations include data (costs and volumes) associated with permits and permit conditions for which an ex-ante allowance was provided at ED1 FD.[70] This is inconsistent with the 2019 methodology as well as the re-opener's principles. The SSWC re-opener was designed to provide additional funds on top of ex-ante allowances to the extent that the cost of additional work is deemed efficient.[71] Costs and volumes that should be subject to the efficiency assessment are then only those for which no funding was given at ED1 FD. This inclusion increases NPgY adjustment compared to our approach.

Table 13: Summary of adjustment values (£m)

DNO	Decision	Minded to position	Requested adjustment
EPN	**-**	-	1.59
EMID	**4.37**	4.05	4.37
WMID	**7.37**	7.03	7.37
SPMW	**1.06**	1.06	1.06
NPgY	**1.42**	-	10.58
NPgN	**7.40**	6.88	8.53

Next steps

7.20 Final adjustments will be made through RIIO-ED2 allowed revenues, and we will determine revised values for the purpose of the AIP.

[70] In practice, NPgY includes RRP table M9b amongst the data sources of the unit cost calculations.
[71] Ofgem (4th March 2013), "Strategy decision for the RIIO-ED1 electricity distribution price control - Uncertainty mechanisms", para. 3.17.

8. Next Steps

8.1 We will engage with DNOs as necessary to implement the closeout methodologies and effect any necessary revenue adjustments as part of the AIP.

8.2 Where further additional information is required, we will engage with DNOs and request this as necessary.

8.3 We will consult separately on any potential licence modifications required to give effect to the closeout decision and we intend to make the necessary licence modifications ahead of the AIP.