

# Decision

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## RIIO-2 Re-opener Application 2024 Final Determination – Core Document

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Publication date:	09 December 2024
Contact:	Evan Alaa
Team:	Price Control Ops – Small and Medium projects
Email:	ReopenerConsultations@ofgem.gov.uk

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Our aim for the RIIO-2 price controls is to ensure energy consumers across Great Britain (GB) get the best possible value, quality of service and environmentally sustainable outcomes from networks. Since January 2024, we received re-opener applications across various re-opener mechanisms from Electricity Transmission, Electricity Distribution and Gas Distribution network companies.

In September 2024, we consulted on our assessment of twelve network companies' re-opener application submissions. Rather than publish separate Final Determinations on every single re-opener decision, we have grouped them into one structured Final Determination publications, comprising of a core document which outlines the scope, purpose and overview of our decisions to the relevant published sector specific annexes.

Alongside this core document, we are publishing sector specific annexes which provides our Final Determinations for the re-opener applications across the relevant sectors.

These documents contain an overview of our Draft Determinations, stakeholder responses to our Draft Determinations, our views on the responses we received and our determined efficient costs for the re-opener application submissions.

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10 South Colonnade, Canary Wharf, London, E14 4PU.

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## 1. Introduction

- 1.1 Network companies are natural monopolies. Effective regulation of privatised for-profit monopolies is essential to ensure they cannot unfairly exercise their monopoly power to the detriment of their customers. This is particularly important in the case of essential utilities, such as energy, where consumers have no choice on whether or not to pay what they are charged. It is therefore crucial that an effective regulator protects energy consumers by controlling how much network companies can charge their customers.
- 1.2 We regulate the monopoly companies in the four energy network sectors: Electricity Transmission (ET), Gas Transmission (GT), Electricity Distribution (ED), and Gas Distribution (GD). Ofgem does this through periodic price controls that are designed to ensure network companies are properly incentivised to deliver the best possible outcomes for current and future energy consumers. This includes ensuring that consumers only pay for investments that are needed and do not overpay for those investments.
- 1.3 The current price control model is known as RIIO (Revenue = Incentives + Innovation + Outputs). RIIO-2 is the second electricity and gas price control under the RIIO model. The RIIO-2 price control period runs from 1 April 2021 until 31 March 2026 for ET, GT and GD.<sup>1</sup> The RIIO-2 price control period for ED sector runs from 01 April 2023 to 31 March 2028.<sup>2</sup> It includes a range of Uncertainty Mechanisms (UMs) that allow us to assess network companies' applications for further funding during RIIO-2 and adjust their allowances in response to changing developments during the price control period. This prevents setting network companies' allowances higher or lower than required.
- 1.4 UMs ensure that consumers fund projects only when there is clear evidence of benefit, and once we have clarity on likely costs and cost efficiency. Without UMs, consumers may be facing higher costs than necessary and network companies may be exposed to an unreasonable level of financial risk. These mechanisms also ensure that the RIIO-2 price control has flexibility to adapt as the pathways to Net Zero become clearer.
- 1.5 Where possible, we have set automatic UMs, known as Volume Driver mechanisms, such as the Generation and Demand Connection Volume Drivers,

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<sup>1</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

<sup>2</sup> [RIIO-ED2 Final Determinations | Ofgem](#)

which provide network companies with immediate funding when they are required to undertake new customer connection works.

- 1.6 In other areas, where the degree of uncertainty is too great to allow for an automatic mechanism, we set “re-openers” which allow us to assess network companies’ proposals robustly, once sufficiently accurate information is made available.
- 1.7 Re-openers are a type of UM that allow us to adjust a licensee’s allowances (in some cases up and in some cases down), outputs and delivery dates in response to changing circumstances during the price control period. For some re-openers we can do this by issuing a direction, provided certain requirements are met in line with the Gas Act 1986 and the Electricity Act 1989. For some re-openers, modifications (ie modifications of licence conditions) must be made under section 11A of the Electricity Act 1989 or under section 23 of the Gas Act 1986.
- 1.8 Please see Appendix 1 for a high level explanation of the purpose and benefits of the re-opener mechanisms relevant to these Final Determinations. The appendix contains references and links to the RIIO-2 Final Determination Documents where more detailed explanation can be found.
- 1.9 **Table 1** provides the full list of network companies we regulate and the abbreviations we use when referring to them throughout our suite of Final Determinations documents. Appendix 3 contains a glossary of terms and definitions used in these documents.

**Table 1 – Regulated network companies**

<b>Sector</b>	<b>Company Group</b>	<b>Sector Group</b>	<b>Network</b>	<b>Network Short Name</b>
ET	National Grid	National Grid Electricity Transmission	National Grid Electricity Transmission	NGET
ET	Scottish and Southern Energy	Scottish Hydro Electric Transmission	Scottish Hydro Electric Transmission	SHET
ET	SP Energy Networks	SP Transmission	SP Transmission	SPT
GT	National Gas	National Gas Transmission	National Gas Transmission	NGGT
ED	Electricity North West	Electricity North West	Electricity North West	ENWL
ED	Northern Powergrid	Northern Powergrid	Northern Powergrid - Northern	NPgN
ED	Northern Powergrid	Northern Powergrid	Northern Powergrid - Yorkshire	NPgGY
ED	National Grid	National Grid Electricity Distribution	National Grid Electricity Distribution - West Midlands	WMID
ED	National Grid	National Grid Electricity Distribution	National Grid Electricity Distribution - East Midlands	EMID
ED	National Grid	National Grid Electricity Distribution	National Grid Electricity Distribution - South Wales	SWALES
ED	National Grid	National Grid Electricity Distribution	National Grid Electricity Distribution - South West	SWEST
ED	SP Energy Networks	SP Energy Networks	SP Energy Networks - Distribution	SPD
ED	SP Energy Networks	SP Energy Networks	SP Energy Networks - Manweb	SPMW
ED	Scottish and Southern Energy	Scottish and Southern Energy	SSEN Distribution - Hydro	SSEH
ED	Scottish and Southern Energy	Scottish and Southern Energy	SSEN Distribution - Southern	SSES
ED	UK Power Networks	UK Power Networks	UK Power Networks - East	EPN

<b>Sector</b>	<b>Company Group</b>	<b>Sector Group</b>	<b>Network</b>	<b>Network Short Name</b>
ED	UK Power Networks	UK Power Networks	UK Power Networks - London	LPN
ED	UK Power Networks	UK Power Networks	UK Power Networks - South East	SPN
GD	Cadent	Cadent	Cadent - East of England	EoE
GD	Cadent	Cadent	Cadent - London	Lon
GD	Cadent	Cadent	Cadent - North West	NW
GD	Cadent	Cadent	Cadent - West Midlands	WN
GD	Northern Gas Networks	Northern Gas Networks	Northern Gas Networks	NGN
GD	Scotia Gas Network	Scotia Gas Networks	Scotland Gas Network	Sc
GD	Scotia Gas Network	Scotia Gas Networks	Southern Gas Network	So
GD	Wales & West Utilities	Wales & West Utilities	Wales & West Utilities	WWU

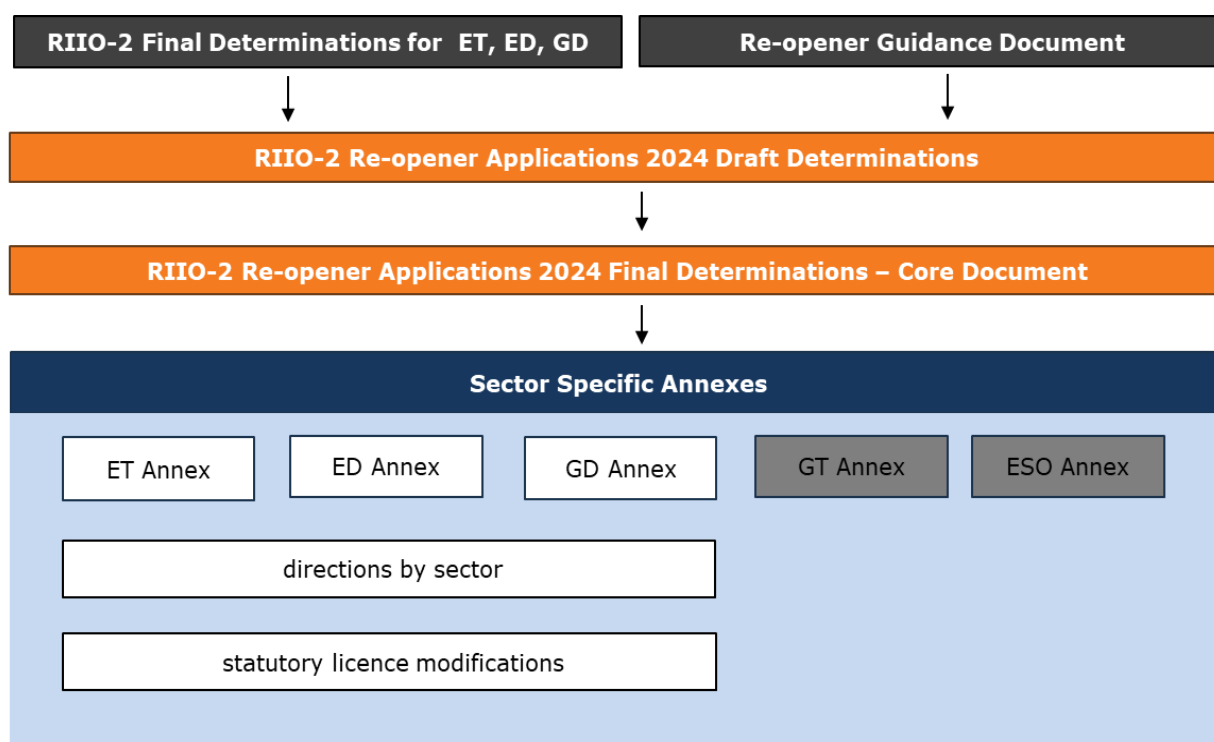
1.10 Please note that where a network company has a number of different networks, and where a project relates to more than one of its networks, then we count each network as a separate project. For example, in most cases, Cadent’s projects cover all four of its networks (EoE, Lon, NW, WM). In these cases, we count this as four projects. The same approach applies to Northern Powergrid (2 networks), National Grid Electricity Distribution (3 networks), SP Energy Networks (2 networks), Scottish and Southern Energy (2 networks), and to Scotia Gas Networks (2 networks).

## **Navigating the Final Determinations**

1.11 Our Final Determinations document suite is set out in **Figure 1**. This includes documents for the GD, ED and ET sectors. This document is the Core Document, which set out our approach to standard assessment of network companies’ re-opener application submissions, our decision-making process and a summary on our Final Determinations and determined project allowances for each re-opener application that is part of this Final Determination publications. Where there are specific re-opener mechanism considerations, we have set these out in the relevant sector specific annexes. This document is intended to be read in conjunction with the:

- Sector specific annex (GD, ED and ET): these documents set out our Final Determinations of the re-opener applications by the applicable network company.
- Directions: these documents set out our directions for implementing Authority’s decision for the relevant licensee’s re-opener application.
- Statutory consultation: these documents set out the reasons and effect of our proposal to modify the relevant licensee’s licence, where we have determined that such licence modification is required. These documents include the proposed text of our draft licence modification that would give effect to our decision for the relevant licensee’s re-opener applications.

**Figure 1 - Navigating our Draft Determinations**



## Related publications

1.12 Other previously published closely related documents are:

- Draft RIIO-2 Re-opener Applications 2024 Draft – these documents sets out Draft Determinations on the applicable RIIO-2 re-opener applications in 2024 for ET, ED and GD ( [Draft Determinations on RIIO-2 re-opener applications 2024: Electricity Transmission, Electricity Distribution and Gas Distribution | Ofgem](#)).



- RIIO-2 Final Determinations for ET, GT, GD – these documents sets out Final Determinations for company allowances under the RIIO-2 price control framework ([RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)).
- RIIO-2 Final Determinations for ED – these document sets out Final Determinations for Distribution Network Operators (DNO) allowances under the RIIO-ED2 price control framework, commencing on 1 April 2023 and covering the five-year period to 31 March 2028 ([RIIO-ED2 Final Determinations | Ofgem](#)).
- Re-opener Guidance - this document sets out how the licensees must prepare their re-opener applications in accordance with Special Condition (SpC) 9.4 (Re-opener Guidance and Application Requirements Document) of the GT, GD and ET licences (effective from 1st April 2021) and the ED licences (effective from 1st April 2023). This document also provides guidance on the style and structure for re-opener applications ([Re-opener Guidance and Application Requirements Document: Version 3 | Ofgem](#)).

## **Our decision-making process**

### **Re-opener assessment and approval process**

- 1.13 The purpose of our decision-making process for re-opener applications is to ensure efficient use of the consumers’ money to fund projects in the most efficient way. In doing so, it is imperative that we carry out robust assessments on network companies’ request for additional funding. In line with the relevant licence condition requirements and the Re-opener Guidance and Application Requirements, our assessments cover a number of stages summarised in **Figure 2**. We consider the relevant licensee’s project proposal and funding request in accordance with our principal objective under the Gas Act 1986, the Electricity Act 1989 and in accordance with our statutory duties.
- 1.14 The re-opener assessment and decision-making process are as follows:
1. **Pre-engagement:** Before submissions are made, we engage with licensees, in order to understand the materiality and complexity of the projects.

2. **Submission:** Licensees are required to submit their re-opener applications in defined submission windows,<sup>3</sup> and at a point in time where they are satisfied, they can submit a sufficiently strong needs case and when they have sufficient certainty over their cost forecasts. Licensees are required to also publish their submissions on their website in accordance with the Re-opener Guidance and Application Requirements Document.<sup>4</sup> This document sets out both general and specific requirements that apply to re-opener applications as well as guidance on style and structure of the submissions.
3. **Assessment:** Project proposal and funding requests are assessed in accordance with the Re-opener Guidance and Application Requirements and the relevant licence requirements. Typically, submissions are assessed against three areas: needs case, optioneering and costs. In carrying out our assessment, we take into consideration the evidence presented in the submission itself, as well as evidence gathered in responses to supplementary questions (SQs) which we pose to the licensees following assessment of the initial submission.
  - SQ process: We obtain further information through the SQ process to aid the assessment of the funding application. This information is intended to be used for clarification purposes only (information submitted through the SQ process should already be included in the original re-opener submission).
  - Policy consultation process: We may use the consultation process to receive information on an issue that was raised during the submission, that was not previously considered and is likely to have a material impact on our decision.
4. **Draft Determination:** We consult on our Draft Determination which provides our minded-to position on the submission. This includes a summary of the proposed needs case, optioneering and costs from the licensee’s submission along with our assessment of each one of them. The Draft Determination will also include our proposed project cost

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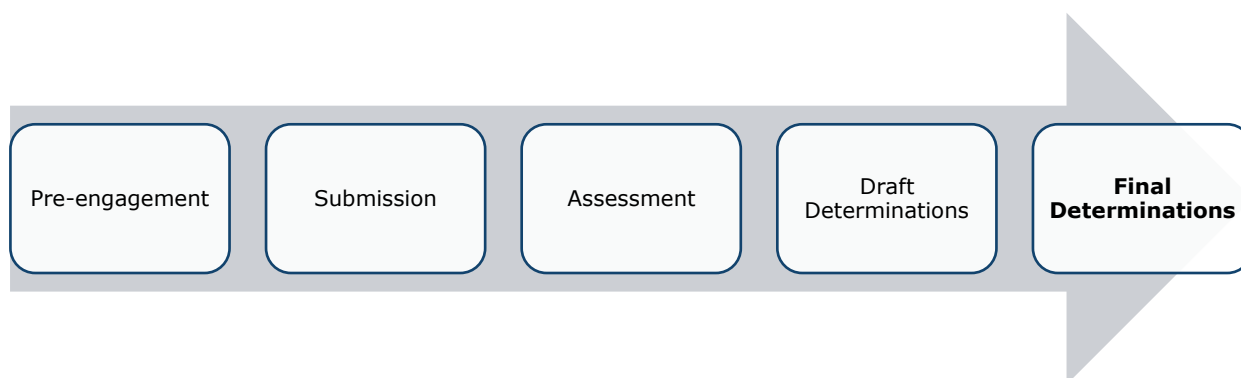
<sup>3</sup> In accordance with re-opener licence conditions, relevant licensees are restricted to the re-opener submission window provided by the Authority. However, for many of the re-opener mechanisms, we have the discretion to create an additional window. In some instances, the Authority may also decide to trigger a re-opener. The re-opener licence conditions may provide either or both options.

<sup>4</sup> [Re-opener Guidance and Application Requirements Document: Version 3 | Ofgem](#)

adjustments, if any. The consultation period runs for a minimum of 28 days, during which we welcome representations from interested stakeholders. We also typically publish a draft direction for consultation, alongside our Draft Determination.<sup>5</sup>

5. **Final Determination:** Following consideration of consultation responses, the Final Determination finalises our position on our assessment of the re-opener application. This includes a summary of the Draft Determination, summaries of the responses received and our final decision on the project cost allowance. We issue a direction for implementing the Authority’s decision for the relevant licensee’s re-opener application. Where required under the relevant licence condition (eg requirement to modify the licence in accordance with section 11A of the Electricity Act 1989 or under section 23 of the Gas Act 1986), we will undertake a statutory consultation on proposed licence modifications to give effect to the Authority’s decision.

**Figure 2: Re-opener assessment process**



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<sup>5</sup> As set out in the relevant licence condition for each re-opener mechanism, before making a decision, we publish on our website: the text of the proposed direction; the reasons for the proposed direction; a period during which representations may be made on the proposed direction, which will not be less than 28 days.

## **Decision-making stages**

1.15 The decision-making stages are detailed below:

<b>Date</b>	<b>Stage description</b>
03/09/2024	Stage 1: Consultation open
01/10/2024	Stage 2: Consultation closes (awaiting decision), Deadline for responses
25/11/2024	Stage 3: Responses reviewed and published
09/12/2024	Stage 4: Consultation decision/policy statement

## **General feedback**

1.16 We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd 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 [\[stakeholders Ofgem email address\]](#).

## 2. Final Determinations at a Glance

### What did we consult on?

#### Re-opener applications

2.1 On 02 September 2024, we consulted on our assessment of twelve network companies' re-opener applications. These applications were submitted under the following re-opener mechanisms as provided for by the conditions of the network companies' licences:

#### Electricity Transmission

- Medium Sized Investment Projects (MSIP)<sup>6</sup>
- Large Onshore Transmission Investment (LOTI) – Final Needs Case<sup>7</sup>

#### Electricity Distribution

- Hebrides and Orkney Whole System Uncertainty Mechanism (HOWSUM)<sup>8</sup> – (SSEH only)
- Storm Arwen Re-opener<sup>9</sup>

#### Gas Distribution

- Diversions and Loss of Development Claims Policy Re-opener<sup>10</sup>
- Multi Occupancy Buildings (MOBs) Safety Re-opener<sup>11</sup>
- New Large Load Connections Re-opener<sup>12</sup>

2.2 We did not receive any re-opener application submissions from the Gas Transmission network company and from the Electricity System Operator.

2.3 We considered each proposal and relevant justification for funding requested in accordance with our principal objective and statutory duties and in line with the Re-opener Guidance and Application Requirement Document.

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<sup>6</sup> Special Condition 3.14 Medium Sized Investment Projects Re-opener and Price Control Deliverable (MSIPRET)

<sup>7</sup> Special Condition 3.13 Large onshore transmission investment Re-opener (LOTIAt and LOTIREt)

<sup>8</sup> Special Condition 3.2 (Hebrides and Orkney Re-opener) Part N

<sup>9</sup> Special Condition 3.2 Uncertain Costs (Storm Arwen Re-opener) Part J

<sup>10</sup> Special Condition 3.20 Diversions and Loss of Development Claims policy Re-opener (DIVt)

<sup>11</sup> Special Condition 3.21 Multiple Occupancy Buildings safety Re-opener (MOBSt)

<sup>12</sup> Special Condition 3.22 New Large Load Connections Re-opener (NLLRt)

- 2.4 We consulted on our Draft Determination and associated draft directions that would be used to implement the Authority’s decision for the relevant licensee’s re-opener application.
- 2.5 We received re-opener applications for 266 projects out of which 147 were approved or partially approved in our Draft Determination. **Table 2** below summarises our Draft Determinations, including the value of the additional funding that the network companies have requested for and our proposed project allowances. For more details on our assessment and our Draft Determination of the re-opener application submissions, please see sector specific annexes published on our website.<sup>13</sup>

**Table 2 – Summary of Draft Determinations<sup>14</sup>**

Sector	Sector Group	Company requested - Number of Projects	Forecast costs	Ofgem’s DD-Projects Approved*	Ofgem’s DD - Projects Not Approved	Cost adjustment (£m)	Ofgem’s DD Allowances (£)
ET	National Grid Electricity Transmission	8	85.24	8	-	-30.06**	55.18**
ET	Scottish Hydro Electric Transmission	-	-	-	-	-	-
ET	SP Transmission	2	11.82	2	-	-0.29	11.53
	<b>Total</b>	<b>10</b>	<b>97.06</b>	<b>10</b>	<b>-</b>	<b>-30.35</b>	<b>66.71</b>
GT	National Gas Transmission	-	-	-	-	-	-
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
ED	Electricity North West	6	27.5	6	-	-	27.5
ED	Northern Powergrid	25	34.79	14	11	-14.73	20.06
ED	National Grid Electricity Distribution	61	61.38	15	46	-43.21	18.17

<sup>13</sup> [Draft Determinations on RIIO-2 re-opener applications 2024: Electricity Transmission, Electricity Distribution and Gas Distribution | Ofgem](#)

<sup>14</sup> Ofgem DD is a term used to annotate Ofgem Draft Determination

<b>ED</b>	SP Energy Networks	26	75.9	6	20	-68.24	7.66
<b>ED</b>	Scottish and Southern Energy	11	56.75	6	5	-6.22	50.53
<b>ED</b>	UK Power Networks	28	56.7	8	20	-28.2	28.5
	<b>Total</b>	<b>157</b>	<b>313.01</b>	<b>55</b>	<b>102</b>	<b>-160.59</b>	<b>152.42</b>
<b>GD</b>	Cadent	69	148.33	55	14	-85.79	62.55
<b>GD</b>	Northern Gas Networks	-	-	-	-	-	-
<b>GD</b>	Scotia Gas Networks	4	15.41	3	1	-3.6	11.81
<b>GD</b>	Wales & West Utilities	26	53.03	24	2	-0.43	52.59
	<b>Total</b>	<b>99</b>	<b>216.77</b>	<b>82</b>	<b>17</b>	<b>-89.82</b>	<b>126.95</b>

*\*Including partial funding*

*\*\* These figures were published in the DD as -29.03 and 56.21 respectively, where we included expenditure in 2026/27, which is beyond ET2 price control period. We have corrected them to efficient cost within RIIO-ET2 period (-30.06 and 55.18 respectively) as efficient project cost incurred after March 2026 will be recovered in line with the RIIO-3 settlement process.*

2.6 Please note that for ED sector, all cost and allowance values in these Final Determinations are in 2020/21 prices. For all other sectors, all cost and allowance values are in 2018/19 prices. This is to align with the price bases used in setting the RIIO-2 price controls.

### **Licence correction**

2.7 We also consulted on two proposed directions for Cadent and for NGET under the Non-Operational IT Capex Re-opener mechanism. Both companies alerted us to errors in their final directions, which were published in the Non-Operational IT Capex Final Determinations and directions on 28 May 2024.<sup>15</sup> To rectify these errors, we published on our website a new proposed direction for each company that gives effect to the corrected figures.<sup>16</sup>

2.8 The amended direction for each company is being published alongside this Final Determinations.

<sup>15</sup> [Non-Operational IT Capex Re-opener Final Determinations \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/non-operational-it-capex-re-opener-final-determinations)

<sup>16</sup> [Draft Determinations on RIIO-2 re-opener applications 2024: Electricity Transmission, Electricity Distribution and Gas Distribution | Ofgem](#)

## Summary of our Final Determinations<sup>17</sup>

- 2.9 We received responses to our consultation from all twelve network companies who submitted re-opener applications that we consulted on, as part of our RIIO - 2 Re-opener Applications 2024 Draft Determinations. We also received a response from one non-network company stakeholder. Having carefully considered all views set out in the responses, we have decided to proceed with making our Final Determinations as set out below.
- 2.10 We have decided to approve the relevant licensees' re-opener applications for ET, ED and GD listed in the **Table 3** below. The total forecasted costs of the submitted projects for all sectors combined are approx. £615.29m in 2018/19 prices, or approx. £638.87m in 2020/21 prices. The total additional allowances awarded for all sectors combined are approx. £363.84m in 2018/19 prices, or approx. £377.79m in 2020/21 prices.
- 2.11 We have decided to disallow the below projects across the following mechanisms:
- **Storm Arwen Re-opener** (under SpC 3.2 of the ED Licence): We have decided to disallow 35 project proposal that did not meet the recommendations, as stated in the Energy Emergencies Executive Committee (E3C) or Ofgem Storm Arwen Report. In addition, we have decided to disallow project proposals which we deem are Business-as-Usual Activities, requires a wider policy discussion to be addressed or do not meet the SART Principles as outline in the ED annex.
  - **Diversions and Loss of Development Claims Policy Re-opener** (under SpC 3.20 of the GD Licence):
    - Diversion costs: We have decided to disallow 1 SGN project where there are ongoing legal proceedings to recover third-party costs. SGN have not demonstrated these diversion costs are efficient and cannot be fully recovered from the requesting third party.
  - **Multi Occupancy Buildings (MOBs) Safety Re-opener** (Under SpC 3.21 of the GD Licence): We have decided to disallow Cadent's application across all 4 of their networks under this re-opener as we consider the application is not within scope of the re-opener mechanism.

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<sup>17</sup> The Final Determinations do not include SHET's Gremista GSP project submitted under LOTI re-opener mechanism because we only assessed the Final Needs Case (FNC) of this project in the consultation. We will assess the project costs of £105m after we approve the FNC for this project.

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WWU’s New Large Load Connections Re-opener application for GD sector

2.12 As part of its consultation response, WWU confirmed that they no longer wish to proceed with three projects and requested that these are removed from their Re-opener application submissions. We have removed a combined value of £2.56m from WWU’s total project fund request. Further detail can be found in the GD Annex.

NGET’s Hylton Castle MSIP re-opener application for ET sector

2.13 Please note, we are not publishing a decision on the Hylton Castle project at this stage as we require further time to assess the proposal before formalising our Final Determination.

**Table 3 – Summary of Final Determinations of project allowances**

<b>Sector</b>	<b>Sector Group</b>	<b>Company requested - Number of Projects</b>	<b>Forecast costs (£m)</b>	<b>Cost adjustment (£m)</b>	<b>Ofgem’s DD Allowances (£m)</b>	<b>Ofgem’s Adjustment from DD to FD (£m)</b>	<b>Ofgem’s FD allowances (£m)</b>
<b>ET</b>	National Grid Electricity Transmission	8	85.24	-30.06*	55.18*	-28.66	26.52
<b>ET</b>	Scottish Hydro Electric Transmission	-	-	-	-	-	0
<b>ET</b>	SP Transmission	2	11.82	-0.29	11.53	-	11.53
	<b>Total</b>	<b>10</b>	<b>97.06</b>	<b>-30.35</b>	<b>66.71</b>	<b>-28.66</b>	<b>38.05</b>
<b>GT</b>	National Gas Transmission	-	-	-	-	-	0
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ED</b>	Electricity North West	6	27.5	-	27.5	2.92	30.42
<b>ED</b>	Northern Powergrid	25	34.79	-14.73	20.06	9.79	29.85
<b>ED</b>	National Grid Electricity Distribution	61	61.38	-43.21	18.17	6.17	24.34
<b>ED</b>	SP Energy Networks	26	75.9	-68.24	7.66	14.10	21.76
<b>ED</b>	Scottish and Southern Energy	11	56.75	-6.22	50.53	1.52	52.05
<b>ED</b>	UK Power Networks	28	56.7	-28.2	28.5	8.89	37.39
	<b>Total</b>	<b>157</b>	<b>313.01</b>	<b>-160.59</b>	<b>152.42</b>	<b>43.39</b>	<b>195.81</b>

Sector	Sector Group	Company requested - Number of Projects	Forecast costs (£m)	Cost adjustment (£m)	Ofgem’s DD Allowances (£m)	Ofgem’s Adjustment from DD to FD (£m)	Ofgem’s FD allowances (£m)
GD	Cadent	69	148.33	-85.79	62.55	11.31	73.85
GD	Northern Gas Networks	-	-	-	-	0	0
GD	Scotia Gas Networks	4	15.41	-3.6	11.81	1.12	12.93
GD	Wales & West Utilities	26	53.03	-0.43	52.59	-2.16	50.43
	<b>Total</b>	<b>99</b>	<b>216.77</b>	<b>-89.82</b>	<b>126.95</b>	<b>10.27</b>	<b>137.21</b>

\* These figures were published in the DD as -29.03 and 56.21 respectively, where we included expenditure in 2026/27, which is beyond ET2 price control period. We have corrected them to efficient cost within RIIO-ET2 period (-30.06 and 55.18 respectively) as efficient project cost incurred after March 2026 will be recovered in line with the RIIO-3 settlement process.

## Total amount that consumers will pay through their bills

2.14 Any allowances we award to network companies in RIIO-2, including through re-opener mechanisms, are for the specific regulatory years in which the work is expected to be carried out. Although consumers pay out a portion of the allowances (between 15% and 30% for re-openers)<sup>18</sup> to the licensee in the year to which they relate, the majority is paid over the next 45 years. Consumers pay additional amounts to network companies over 45-years to allow the network companies’ shareholders to make a return (Cost of Equity, CoE) and to cover the interest on any debt raised by the network to finance the work (Cost of Debt, CoD). From a consumer perspective, this is conceptually the same as repaying a 45-year loan to the network companies with associated interest payments (and paying an interest rate equal to the Cost of Debt plus the Cost of Equity).

2.15 We have estimated how much the funding decisions in our Final Determinations, will cost consumers in total full 45-year periods over which consumers will be pay the network companies through their energy bills. The total amount that consumer will pay to each network company is summarised in **Table 4** below. The main headlines from this analysis are below (please note all amounts are in the 2023/24 prices, which is the most recent completed regulator year). It should

<sup>18</sup> Capitalisation and gearing rates, and the Cost of Debt and Equity values for each licensee are as per the Finance Annexes of our RIIO-2 final determinations. Cost of Debt is updated annually. However, for our estimations we have kept the individual licensees’ Cost of Debt values constant.

be noted that the allowance figures are for all price control periods, i.e. they include RIIO-2 allowances, as well as any allowances that will be awarded through subsequent price controls:

- For the total £444m re-opener allowances approved, consumers will pay an estimated £736m (i.e. an additional £292m) to the network companies,
- The electricity transmission companies will receive automatic additional allowances of approximately £8m. This amount is to fund their indirect activities and are set automatically through the Opex Escalator mechanism. This brings the total allowance for all sectors to £452m.
- The remaining £284m additional amount paid by consumers is to cover the companies' debt interest payments and shareholder returns. This breaks down as follows:
  - £121m (+27% of total reopener allowances) additional will be paid by consumers to cover the network companies' debt interest payments, and
  - £163m (+36% of total allowances) additional will be paid by consumers to the network companies as a return on their shareholders' investments.
- The present value of the total amount to be paid by consumers to the network companies is £435m. The present value is an adjusted value to allow us to account for of the time value of money. The present value figures reflect that £1 paid in future years will in effect cost less than £1 paid today. We use the Government Green Book<sup>19</sup> social time preference rate (STPR) for this purpose.

2.16 It should be noted the estimates are based on assumption that the network companies spend no more or less than their allowances. If a company spends more than its allowances, then consumers will pay more in order to cover a portion (usually around a half) of the overspend through the Totex Incentive Mechanism (TIM). Similarly, if the company spends less than its allowances, the TIM will return a proportion of the underspend to consumers (meaning that consumers will have paid less than estimated), with the companies retaining the remainder to either reinvest in their networks or businesses or to pass on to their shareholders. The estimates also do not account for the impact of any amounts

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<sup>19</sup> <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020>

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that consumers may pay to network companies to cover the tax payable on their profits.

**Table 4 - Estimated total amount to be paid by consumers through their bills for these Final Determinations, £m**

Sector	Company	Price Base	Paid by Consumers: Reopener Allowances (£m)	Paid by Consumers: Additional Allowances (£m)	Paid by Consumers: Company Debt Repayments	Paid by Consumers: Company Shareholder Return	Total Paid by Consumers	Present Value of Total Paid by Consumers
ET	National Grid Electricity Transmission	2018/19	27.56	4.66	6.30	12.04	50.57	30.12
ET	Scottish Hydro Electric Transmission	2018/19	-	-	-	-	-	-
ET	SP Transmission	2018/19	11.53	1.54	2.56	4.89	20.52	12.14
<b>ET</b>	<b>Sector Total</b>	<b>2018/19</b>	<b>39.09</b>	<b>6.20</b>	<b>8.86</b>	<b>16.93</b>	<b>71.09</b>	<b>42.26</b>
GT	National Gas Transmission	2018/19	-	-	-	-	-	-
<b>GT</b>	<b>Sector Total</b>	<b>2018/19</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
ED	Electricity North West	2020/21	30.42	-	10.74	12.44	53.60	29.25
ED	Northern Powergrid	2020/21	29.85	-	10.53	12.20	52.58	28.68
ED	National Grid Electricity Distribution	2020/21	24.34	-	8.56	9.92	42.82	23.57
ED	SP Energy Networks	2020/21	21.76	-	7.68	8.90	38.34	21.61
ED	Scottish and Southern Energy	2020/21	52.05	-	18.38	21.29	91.71	53.69
ED	UK Power Networks	2020/21	37.39	-	13.20	15.29	65.87	36.34
<b>ED</b>	<b>Sector Total</b>	<b>2020/21</b>	<b>195.81</b>	<b>-</b>	<b>69.09</b>	<b>80.03</b>	<b>344.93</b>	<b>193.15</b>
GD	Cadent	2018/19	73.86	-	12.98	21.63	108.46	68.88
GD	Northern Gas Networks	2018/19	-	-	-	-	-	-
GD	Scotia Gas Network	2018/19	12.93	-	2.35	3.79	19.07	12.10
GD	Wales & West Utilities	2018/19	50.43	-	9.16	14.78	74.37	47.99
<b>GD</b>	<b>Sector Total</b>	<b>2020/21</b>	<b>137.21</b>	<b>-</b>	<b>24.49</b>	<b>40.20</b>	<b>201.90</b>	<b>128.97</b>
<b>All</b>	<b>All Sectors Total</b>	<b>2018/19</b>	<b>356.80</b>	<b>6.20</b>	<b>97.04</b>	<b>130.91</b>	<b>590.95</b>	<b>349.28</b>
<b>All</b>	<b>All Sectors Total</b>	<b>2020/21</b>	<b>370.48</b>	<b>6.44</b>	<b>100.76</b>	<b>135.93</b>	<b>613.60</b>	<b>362.67</b>
<b>All</b>	<b>All Sectors Total</b>	<b>2023/24</b>	<b>444.37</b>	<b>7.73</b>	<b>120.85</b>	<b>163.04</b>	<b>735.98</b>	<b>435.00</b>

## 3. Next steps

- 3.1 **Table 5** summarises how we are implementing our decisions for the relevant Final Determinations. For certain re-opener mechanisms listed in this table, directions have been issued by Ofgem, setting out relevant outputs and allowance adjustments. These allowances have been adjusted by changing the value of the re-opener terms listed within the licence and for the Regulatory Years to which that adjustment relates. We have included directions in the appendices of the sector specific annexes.
- 3.2 Alongside these Final Determinations, we are undertaking a statutory consultation on our proposals to modify the applicable licensees' licence to implement our decision on project funding requests made under the following re-opener mechanisms:
- MSIP Re-opener (SpC 3.14 of the ET licences),
  - Storm Arwen Re-opener (modifications of SpCs 1.2, 3.2 Part J and addition of new SpC 3.17 of the ED licences),
  - Diversions and Loss of Development Claims Policy Re-opener (SpC 3.20 of the GD licences), and
  - New Large Load Connections Re-opener (SpC 3.22 of the GD licences).
- 3.3 We have included the draft text for the proposed licence amendments in the relevant statutory consultation document. Please note, this may be revised following consultation on the proposed licence drafting. The statutory consultation documents have been published as part of the suit of documents in this Final Determination publication.

**Table 5 – Decision implementation overview**

<b>Sector</b>	<b>Network company</b>	<b>Licence condition/ Reopener applications subject to this decision</b>	<b>Direction/ licence modification</b>
ET	NGET	SpC: 3.14 Medium Sized Investment Projects Re-opener and Price Control Deliverable (MSIPREt)	Licence modification - amendment of existing licence condition
ET	SPT	SpC: 3.14 Medium Sized Investment Projects Re-opener and Price Control Deliverable (MSIPREt)	Licence modification - amendment of existing licence condition
ET	SHET	SpC: 3.14 Large onshore transmission investment Re-opener – Final needs case	N/A
ED	SSEH	SpC: 3.2 Hebrides and Orkney Re-opener (HOt) Part N	Direction
ED	ENWL	SpC: 1.2 Definitions and references to the Electricity Distributors SpC: 3.2 Uncertain Costs (Storm Arwen Re-opener) Part J	Licence modification - amendment of existing licence conditions
ED	ENWL	SpC: 3.17 Storm Arwen Re-opener and Price Control Deliverable (SARt)	Licence modification - addition of a new licence condition
ED	Northern Powergrid	SpC: 1.2 Definitions and references to the Electricity Distributors SpC: 3.2 Uncertain Costs (Storm Arwen Re-opener) Part J	Licence modification - amendment of existing licence conditions
ED	Northern Powergrid	SpC: 3.17 Storm Arwen Re-opener and Price Control Deliverable (SARt)	Licence modification - addition of a new licence condition
ED	Scottish and Southern Electricity Networks	SpC: 1.2 Definitions and references to the Electricity Distributors SpC: 3.2 Uncertain Costs (Storm Arwen Re-opener) Part J	Licence modification - amendment of existing licence conditions
ED	Scottish and Southern Electricity Networks	SpC: 3.17 Storm Arwen Re-opener and Price Control Deliverable (SARt)	Licence modification - addition of a new licence condition
ED	SP Energy Networks	SpC: 1.2 Definitions and references to the Electricity Distributors SpC: 3.2 Uncertain Costs (Storm Arwen Re-opener) Part J	Licence modification - amendment of existing licence conditions
ED	SP Energy Networks	SpC: 3.17 Storm Arwen Re-opener and Price Control Deliverable (SARt)	Licence modification - addition of a new licence condition
ED	National Grid Electricity Distribution	SpC: 1.2 Definitions and references to the Electricity Distributors SpC: 3.2 Uncertain Costs (Storm Arwen Re-opener) Part J	Licence modification - amendment of existing licence conditions
ED	National Grid Electricity Distribution	SpC: 3.17 Storm Arwen Re-opener and Price Control Deliverable (SARt)	Licence modification - addition of a new licence condition
ED	UKPN	SpC: 1.2 Definitions and references to the Electricity Distributors SpC: 3.2 Uncertain Costs (Storm Arwen Re-opener) Part J	Licence modification - amendment of existing licence conditions
ED	UKPN	SpC: 3.17 Storm Arwen Re-opener and Price Control Deliverable (SARt)	Licence modification - addition of a new licence condition

<b>Sector</b>	<b>Network company</b>	<b>Licence condition/ Reopener applications subject to this decision</b>	<b>Direction/ licence modification</b>
GD	Cadent	SpC: 3.20 Diversions and Loss of Development Claims Policy Re-opener (DIVt)	Direction & Licence modification - amendment of existing licence conditions
GD	Northern Gas Networks	SpC: 3.20 Diversions and Loss of Development Claims Policy Re-opener (DIVt)	Licence modification - amendment of existing licence conditions
GD	SGN (Scotland Gas Networks)	SpC: 3.20 Diversions and Loss of Development Claims Policy Re-opener (DIVt)	Direction & Licence modification - amendment of existing licence conditions
GD	WWU	SpC: 3.20 Diversions and Loss of Development Claims Policy Re-opener (DIVt)	Direction & Licence modification - amendment of existing licence conditions
GD	Cadent	SpC: 3.22 New Large Load Connections Re-opener (NLLRt)	Direction & Licence modification - amendment of existing licence conditions
GD	WWU	SpC: 3.22 New Large Load Connections Re-opener (NLLRt)	Direction & Licence modification - amendment of existing licence conditions
GD	SGN (Scotland Gas Networks)	SpC: 3.22 New Large Load Connections Re-opener (NLLRt)	Licence modification - amendment of existing licence conditions
GD	Northern Gas Networks	SpC: 3.22 New Large Load Connections Re-opener (NLLRt)	Licence modification - amendment of existing licence conditions
GD	Cadent	SpC: 3.7 Non-operational IT Capex Re-opener and Price Control Deliverable (NOITREt)	Direction
ET	NGET	SpC: 3.7 Non-operational IT Capex Re-opener and Price Control Deliverable (NOITREt)	Direction

## Appendices

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## Appendix 1 : Re-opener mechanisms overview

Re-opener Mechanism	Sector	Purpose	Benefits	Licence Condition	Chapter reference	Link to the relevant FD document
<b>New Large Load Connections Re-opener</b>	GD	An ongoing re-opener from RIIO-GD1, providing GDNs with the opportunity to recover efficient costs directly incurred as a result of specific network reinforcement required by new large load connection(s).	Timely connection of new large loads (eg peaking plant power generation) that may be required as renewable sources of electricity become increasingly important.	Special Condition 3.22 New Large Load Connections Re-opener (NLLRt)	4.45 – 4.47 of RIIO-2 Final Determinations – GD Sector Annex (REVISED)	<a href="https://www.ofgem.gov.uk/riio-2-final-determinations-gd-sector-annex-revised">RIIO-2 Final Determinations – GD Sector Annex (REVISED) (ofgem.gov.uk)</a>
<b>Diversions and Loss of Development Claims Policy Re-opener</b>	GD	A re-opener to recover additional costs associated with pipeline diversion costs not recoverable from third parties, the cost of settling loss of land development claims and/or costs relating to diverting or securing pipelines as the result of extreme weather events.	To protect consumers and GDNs from uncertain volumes and scope of work in this area.	Special Condition 3.20 Diversions and Loss of Development Claims policy Re-opener (DIVt)	4.26 – 4.33 of RIIO-2 Final Determinations – GD Sector Annex (REVISED)	<a href="https://www.ofgem.gov.uk/riio-2-final-determinations-gd-sector-annex-revised">RIIO-2 Final Determinations – GD Sector Annex (REVISED) (ofgem.gov.uk)</a>

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<b>Re-opener Mechanism</b>	<b>Sector</b>	<b>Purpose</b>	<b>Benefits</b>	<b>Licence Condition</b>	<b>Chapter reference</b>	<b>Link to the relevant FD document</b>
<b>MOB - Safety related activities Re-opener</b>	GD	A common re-opener to respond to any new safety standards for MOBSt that the Ministry of Housing, Communities & Local Government (MHCLG), HSE or other relevant regulators or devolved governments may require in response to the Hackitt Review. Due to current uncertainty on volume and scope, the re-opener can also provide additional funding for safety related maintenance, repairs and riser surveys in medium rise MOBSt.	To ensure the timely implementation of additional safety measures that improve safety for those living in MOBSt.	Special Condition 3.21 Multiple Occupancy Buildings safety Re-opener (MOBSt)	4.34-4.36 of RIIO-2 Final Determinations – GD Sector Annex (REVISED)	<a href="https://www.ofgem.gov.uk/riio-2-final-determinations-gd-sector-annex-revised">RIIO-2 Final Determinations – GD Sector Annex (REVISED) (ofgem.gov.uk)</a>
<b>Medium Sized Investment Projects (MSIP)</b>	ET	To ensure that ETOs are able to undertake necessary investments in the transmission network, funding for which has not been provided in RIIO baseline allowances.	Allows Ofgem to scrutinise, on behalf of consumers, the need for and cost of projects with more unusual characteristics.	Special condition 3.14	4.49 – 4.58 of RIIO-2 Final Determinations Electricity Transmission System Annex (REVISED)	<a href="https://www.ofgem.gov.uk/riio-2-final-determinations-electricity-transmission-system-annex-revised">RIIO-2 Final Determinations Electricity Transmission System Annex (REVISED) (ofgem.gov.uk)</a>
<b>Large Onshore Transmission Investment (LOTI)</b>	ET	To ensure that TOs are funded to undertake necessary large investments on the transmission network.	Allows Ofgem to scrutinise, on behalf of consumers, large transmission investments at the point at which needs case and efficient costs can be scrutinised more effectively.	Special Condition 3.13	4.29 – 4.34 of RIIO-2 Final Determinations Electricity Transmission System Annex (REVISED)	<a href="https://www.ofgem.gov.uk/riio-2-final-determinations-electricity-transmission-system-annex-revised">RIIO-2 Final Determinations Electricity Transmission System Annex (REVISED) (ofgem.gov.uk)</a>

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<b>Re-opener Mechanism</b>	<b>Sector</b>	<b>Purpose</b>	<b>Benefits</b>	<b>Licence Condition</b>	<b>Chapter reference</b>	<b>Link to the relevant FD document</b>
<b>Hebrides and Orkney – (SSEN only)</b>	ED	To allow for upward adjustment of ex ante allowances after identification of customer needs once third-party uncertainties have reduced.	The consumer bears less risk of paying for over- or underinvestment in infrastructure needs for the islands.	Special Condition 3.2	4.6 – 4.9 of RIIO-ED2 Final Determinations SSEN Annex	<a href="#">RIIO-ED2 Final Determinations SSEN Annex (ofgem.gov.uk)</a>
<b>Storm Arwen</b>	ED	Provides DNOs with the opportunity to apply to adjust their baseline allowances where they identify a change to the scope of work they expect to deliver, as a result of the Energy Emergencies Executive Committee (E3C's) or Ofgem's recommendations from the Storm Arwen review	Improves network resilience to severe storm events	Special Condition 3.2 (Storm Arwen Re-opener) Part J	6.23 – 6.30 of RIIO-ED2 Draft Determinations – Overview Document	<a href="#">RIIO-ED2 Draft Determinations – Overview Document (ofgem.gov.uk)</a>

## Appendix 2: Publication Erratum Log

Item Number	Date Added	Date resolved	Document name	Error - Note	Reference	Comment
1	09/09/2024	26/09/2024	RIIO-2 Re-opener Applications 2024 Draft Determination - ED Annex	Table ED16 presented the proposed amendments for SSEN. The row which says "Total overall funding requested by SSEN and our proposed Draft Determination funding" showed the requested funding as £16.04 when it should be £10.48m.	ED Annex Version 1	The number has been corrected and republished in the Draft Determination ED Annex
2	09/09/2024	26/09/2024	RIIO-2 Re-opener Applications 2024 Draft Determination - ED Annex	Table ED18 "Total overall funding requested by NPG and proposed Draft Determination funding" Requested funding column was missing a m (million)	ED Annex Version 1	The typo has been corrected and republished in the Draft Determination ED Annex.
3	09/09/2024	26/09/2024	RIIO-2 Re-opener Applications 2024 Draft Determination - ED Annex	Table ED5 NPG Proposed funding 20.6m was missing a '£'	ED Annex Version 1	The typo has been corrected and republished Draft Determination ED Annex.
4	09/09/2024	26/09/2024	RIIO-2 Re-opener Applications 2024 Draft Determination - ET Annex	Tables ET2 and ET6 in the ET Annex presented the total project cost for Leiston Connection project. The funding request for Leiston Connection project include expenditure in 2026/27, which is beyond ET2 price control period. Efficient project cost incurred after March 2026 will be recovered in line with the RIIO-3 settlement process. We intend for allowances that fall into the RIIO-3 price control period to be set in accordance with the project	ET Annex version 1	Tables ET2 and ET6 in the ET Annex presented the total project cost for Leiston project. Corrected to the allowance within ET2 price control period in FDs.

**Decision** –RIIO-2 Re-opener Application 2024 Final Determination – Core Document

Item Number	Date Added	Date resolved	Document name	Error - Note	Reference	Comment
				assessment carried out under this re-opener application.		
5	19/9/2024	19/9/2024	RIIO-2 Re-opener Applications 2024 Draft Determination - ED Annex	ED Appendix 3 - Draft direction: Appendix 1 figure proposed adjustment has a typo. The number in 26/27 column should show £11.50m and the total should be £46.17m	ED Annex Version 1	Table ED2 has the correct costing and there is an error in ED Appendix 1. Corrected this to represent the correct amount in the final version of the direction for this re-opener.
6	19/9/2024	19/9/2024	RIIO-2 Re-opener Applications 2024 Draft Determination - ED Annex	ED Table4 references SSEH Sourth Uist-Eriskay solution twice with a name mistake in the description. The last row should reference 'SSEH <b>Skye-South Uist</b> solution' and the description should reference 'Install a new 33kV subsea cable (Dunvegan - <b>Loch Carnan</b> )	ED Annex Version 1	Table ED4 has a name mistake and corrected in the FDs.
7	11/12/2024	25/11/24	RIIO-2 Re-opener Applications 2024 Draft Determination - GD Annex	Table GD6b: company request column did not correspond to what was included in the re-opener application. Overall total was correct, however requests in RIIO-GD2 delivery years column were inverted.	GD Annex Version 1	Corrected in FDs to reflect original re-opener application. DD allowances remain the same as these were the allowances consulted on, and the overall total has not changed.
8	29/11/24	29/11/24	RIIO-2 Re-opener Applications 2024 Draft Determination - GD Annex	Annex 1: WWU flagged its phasing under the diversions re-opener was not correct and confirmed via letter (via email) what the phasing should be as per their original re-opener application.	GD Annex Version 1	Corrected in FDs. One project did not have phasing included within the re-opener application, therefore an even split across all yr1-5 of RIIO-2 was assumed. This project has been updated, which has amended the overall phasing.

## Appendix 3: Glossary

### A

#### **Allowed revenue**

The amount of money that a network company can earn on its regulated business.

#### **Associated Document**

A document issued and amended by the Authority in accordance with the Special Condition 1.3 (Common procedure) and any reference to an Associated Document is to that document as amended from time to time unless otherwise specified. It does not include the RIIO-ED2 Price Control Financial Instruments.

#### **The Authority/Ofgem/GEMA**

Ofgem is the Office of Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority (GEMA or 'the Authority'), the body established by section 1 of the Utilities Act 2000 to regulate the gas and electricity markets in Great Britain.

### B

#### **Base revenue**

For RIIO-ED2, our proposed definition of base revenue is a subset of overall revenue calculating in the price control financial model: fast-pot expenditure, non-controllable opex, RAV depreciation and return.

#### **Baseline Allowed Return**

Our estimation, taking into account expectations, of the efficient return for debt and equity capital. Based on a weighted average of the pre-tax cost of debt and the post-tax cost of equity, adjusted for ex ante expectations if any. The weighting uses notional gearing.

#### **Benchmarking**

The process used to compare a company's performance (eg its costs) to that of best practice or to average levels within the sector.

### C

#### **Capital expenditure (capex)**

Expenditure on investment in long-term distribution and transmission assets, such as electricity distribution cables or overhead lines.

#### **Closely Associated Indirects**

These costs include the back-office functions directly involved in the construction and operation of the network assets, such as project management and network design.

### **Consumer**

Within the regulatory framework we consider consumers to be the end users of gas and electricity, whether for domestic or business use.

### **D**

#### **Distributed generation (DG)**

Any generation connected directly to the local distribution network, as opposed to the transmission network, as well as combined heat and power schemes of any scale.

#### **Distribution Network Operators (DNOs)**

A DNO is a company that operates the electricity distribution network, which includes all parts of the network from 132kV down to 230V in England and Wales. In Scotland 132kV is considered to be a part of transmission rather than distribution so their operation is not included in the DNOs' activities. There are 14 DNO licensees that are subject to RIIO price controls. These are owned by six different groups.

#### **Distribution System**

The system of low voltage electric lines and low-pressure pipelines providing for the transfer of electricity and gas within specific regions of GB.

#### **Distribution System Operation**

The set of activities that are needed to support the transition to a smarter, flexible and digitally enabled local energy system. DNOs have been building capabilities in planning, operating and market facilitation of flexible resources to drive more efficient development and use of the decarbonising electricity system. This differs from the more traditional responsibility of a DNO, which is to take power from the transmission network and deliver it at safe, lower voltages to homes and businesses.

### **E**

#### **Electricity System Operator (ESO)**

The entity responsible for operating the electricity transmission system and for entering into contracts with those who want to connect to and/or use the electricity transmission system. National Grid Electricity System Operator Limited is the electricity system operator in Great Britain.

### **Engineering Justification Paper**

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A decision support tool to provide justifications for investments, which is open to scrutiny and challenge.

## **G**

### **Gas Distribution Networks (GDNs)**

GDNs transport gas from the National Transmission System to final consumers and to connected system exit points. There are eight network areas managed by four companies that are subject to RIIO price controls.

## **L**

### **Licence conditions**

These are the conditions under which a licensee holds its licence to operate as a gas transporter or electricity transporter and address various detailed matters including requirements to meet certain standards of performance, how the company's allowed revenue is to be calculated and procedures for modifying various documents.

### **Licence obligations (LO)**

This is one of the RIIO building blocks, an output that is contained within the licence conditions of a network company. The Authority has the power to take appropriate enforcement action in the case of a failure to meet these obligations.

### **Load Related Expenditure**

The investment required to ensure the network has sufficient capacity to accommodate the load on it.

## **N**

### **Net Zero Target**

The 'net zero target' refers to a government commitment to ensure the UK reduces its greenhouse gas emissions by 100% from 1990 levels by 2050. If met, this would mean the amount of greenhouse gas emissions produced by the UK would be equal to or less than the emissions removed by the UK from the environment.

### **Network Company**

A transmission network owner or distribution network operator. The ESO does not fall under this term, see the term Electricity System Operator (ESO).

### **Network Options Assessment (NOA)**



The NOA is the process for assessing options for reinforcing the National Electricity Transmission System (NETS) to meet the requirements that the Electricity System Operator (ESO) finds from its analysis of the FES.

### **Non-op Capex**

The capital costs incurred from activities that are unrelated to core activities, but essential to DNOs in being able to carry out these activities.

### **O**

### **Ongoing Efficiency**

The reduction in the volume of inputs required to produce a given volume of output - ie the productivity improvements that we consider even the most efficient company is capable of achieving.

### **Opex Escalator**

The OE, set out in Special Condition (SpC) 3.36 of the ET licences, is an example of a Volume Driver mechanism, and is used to set Closely Associated Indirect (CAI) allowances in cases where Ofgem has awarded additional Direct Activity Allowances through a re-opener mechanism.

### **Operating Expenditure (opex)**

The costs of the day-to-day operation of the network such as staff costs, repairs and maintenance expenditures and overheads.

### **Outputs**

Services, requirements, and deliverables that network companies are funded or incentivised to deliver through the price control. These can be LOs, ODIs or PCDs. Common outputs apply to all or some of the energy sectors, whereas bespoke outputs apply to one network company.

### **P**

### **Price control**

The control developed by the regulator to set targets and allowed revenues for network companies. The characteristics and mechanisms are developed by the regulator in the price control review period depending on network company performance over the last control period and predicted expenditure (companies' business plans) in the next.

### **Price Control Deliverables (PCDs)**

In RIIO-2, we will use PCDs to capture those outputs that are directly funded through the price control and where the funding provided is not transferrable to a different

output or project. The purpose of a PCD will be to ensure the conditions attached to the funding are clear up-front.

## **R**

### **Regulatory Instructions and Guidance (RIGs)**

A document that is published as part of the price control settlement which sets out further detail on how the price control is to be implemented and how compliance with it will be monitored.

### **Re-openers**

An Uncertainty Mechanism used in certain limited and pre-defined circumstances, which may amend revenue allowances, outputs and/or delivery dates within the price control period.

### **RIIO (Revenue = Incentives + Innovation + Outputs)**

Ofgem's regulatory framework, stemming from the conclusions of the RPI-X@20 project. It builds on the success of the previous RPI-X regime, but better meets the investment and innovation challenge by placing much more emphasis on incentives to drive the innovation needed to deliver a sustainable energy network at value for money to existing and future consumers.

## **S**

### **System Operator (SO)**

The SO is the entity responsible for operating the transmission system and for entering into contracts with those who want to connect to the transmission system. In relation to electricity and gas, this role is performed by National Grid.

## **T**

### **Third party**

Within the innovation context, third party refers to any person other than network companies. It may include, for example, private companies, academics, small and medium-sized enterprises, and trade bodies. It is often used interchangeably with non-network company.

### **Total expenditure (totex)**

Totex includes both capital expenditure (capex) and operating expenditure (opex). Totex is made up of fast money and slow money.

### **Total Market Return (TMR)**

A measure of return that equity investors expect for the market-average level of risk.

**Totex Benchmarking**

A cost assessment approach that includes all normalised controllable costs in a single benchmarking model.

Transmission Owner (TO)

Means, in the electricity sector, National Grid Electricity Transmission, Scottish Power Transmission or Scottish Hydro Electric Transmission and, in the gas sector, National Grid Gas Transmission.

**Transmission system**

The system of high voltage electric lines and high-pressure pipelines providing for the bulk transfer of electricity and gas across GB.

**U**

**Uncertainty Mechanisms (UMs)**

Uncertainty mechanisms allow changes to the base revenue during the price control period to reflect significant cost changes that are expected to be outside the company's control. Common UMs apply to all or some of the energy sectors, whereas bespoke UMs apply to one network company.

**V**

**Volume driver**

An Uncertainty Mechanism allowing revenue to vary as a function of a volume measure (eg number of new connections).

**W**

**Worst served customer**

Customer experiencing on average at least four interruptions at higher voltage distribution per regulatory year, over a three regulatory year period (ie 12 or more interruptions over three regulatory years, with a minimum of two interruptions per regulatory year).

