

# 11 Use of Uncertainty Mechanisms as part of RIIO-ED2 Draft Determinations

## 11.1 The role of Uncertainty Mechanisms

In the Draft Determinations for the RIIO-ED2 Price Control, Ofgem is proposing to set baseline totex allowances only where they are satisfied on the need for and certainty of the proposed activity, and where there is sufficient certainty on the efficient cost of delivery.

Where uncertainty remains, Ofgem proposes a range of Uncertainty Mechanisms (UMs) to manage expenditure during the RIIO-ED2 price control period. These UMs can be classified as follows:

1. **volume drivers** to adjust allowances in line with the actual volume of work delivered, where the volume of certain types of work that will be required over the price control is uncertain (but where the cost of each unit is stable)
2. **re-opener** mechanisms to decide, within a price control period, on additional allowances to deliver a project or activity once there is more certainty in relation to the needs case, project scope or quantities
3. **cost pass-through** to adjust allowances for costs incurred by the DNO over which they have limited control but for which Ofgem consider the full cost should be recoverable (e.g., business rates)
4. **indexation** to provide DNOs and consumers some protection against the risk that outturn prices are different to those which were forecasted when setting the price control, e.g., increases in labour or commodity costs
5. **use-it-or-lose-it (UIOLI) allowances** to adjust allowances where the need for work has been identified, but the specific nature of work or costs are uncertain.

### 11.1.1 The evolution of Uncertainty Mechanisms through RIIO-ED2

Ofgem's proposals for Uncertainty Mechanisms (UMs) have developed through the various consultative stages of the RIIO-ED2 Price Control.

In the Sector Specific Methodology Decision (SSMD), Ofgem proposed 19 UMs, many of which were drawn from the RIIO-ED1 framework. As part of their business plans, the companies were invited to propose additional bespoke mechanisms reflecting the uncertainties inherent in their plans.

In the Draft Determinations, Ofgem has proposed 34 mechanisms which includes 18 of the 19 proposed in the SSMD.

The additional UMs arise largely from two sources:

- firstly, in response to policy developments in the energy sector; and
- secondly, through Ofgem identifying similar bespoke UMs proposed by a number of companies and combining these into industry-wide UMs.

A catalogue of the proposed UMs is provided at Annex A together with key information on the operation of each.

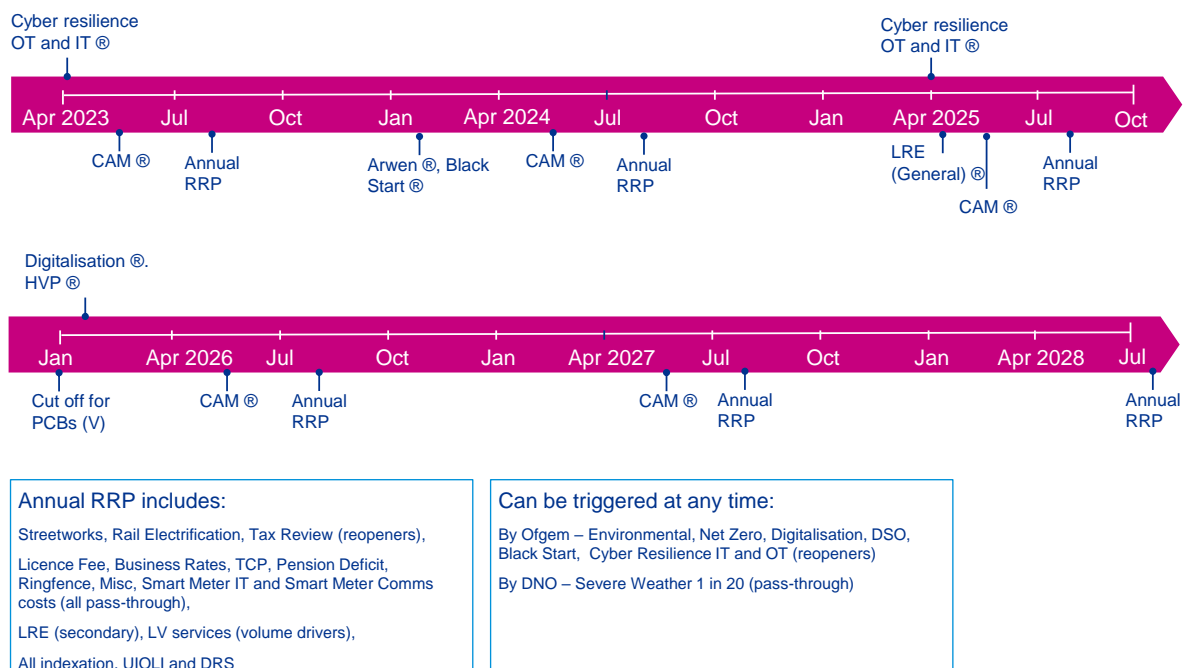
In designing the RIIO-T2 and GD2 frameworks, Ofgem developed a set of 'common design parameters' for reopeners with the stated intention that these would also be applied in RIIO-ED2.

These common design parameters are restated in the Draft Determinations and are as follows:

UM parameter	Consultation position
Re-opener application windows	Bring forward re-opener application windows from May to January (apart from the first year where it will be the last week of April 2023 lasting one week). Reduce re-opener application window from one month to one week (i.e., last week of January).
Application requirements	Provide additional detail and guidance where possible in licence conditions and guidance.
Authority triggered re-openers	The decision whether the Authority can trigger a re-opener at any time during the price control will be made on a case-by-case basis.
Aggregation	To not include an aggregation process for re-openers to meet the materiality threshold.
Materiality threshold	For each individual re-opener application, set a materiality threshold such that we propose to only adjust allowances if the changes to allowances resulting from our assessment, multiplied by the TIM incentive rate applicable to that licensee, exceeds a threshold of 1% of annual average base revenues (as set out in Final Determinations).

Note: there are some differences between the contents of this table and the draft licence conditions. In addition, the proposed guidance is not yet available, making it difficult to scrutinise the precise details of the proposals.

A timeline is set out in Figure 1 showing the timing of the various application windows through the ED2 price control period.



**Figure 1: Timeline for submission to Ofgem under the Uncertainty Mechanisms proposed in the RIIO-ED2 Draft Determinations**

## 11.2 Observations on Ofgem's proposals:

In broad terms, Ofgem's proposals in relation to UMs and their application can be considered from three perspectives:

1. Quality of Regulatory Design
2. Implications for Risk – to companies, customers, and wider society
3. Implications for consumer value

### 1. Quality of Regulatory Design:

#### a) The absence of defined arrangements adds both uncertainty and complexity

A significant number of the UMs are proposed for the first time in the Draft Determinations. Several have yet to be fully defined in terms of rules, metrics, and reporting requirements, so there remains uncertainty as to how they are proposed to operate.

Furthermore, there are various rules as to who can trigger individual UMs, when they can be triggered and the applicability of a threshold of expenditure. Given the range of combinations, this adds complexity for Ofgem and the DNOs, as each will face different requirements for submissions in each year of the period, over and above routine regulatory reporting.

Both of these factors contribute to a lack of clarity about the operation of the overall DD package. This will inevitably result in a reluctance to invest under the very mechanisms which are designed to trigger additional investment and expenditure.

Given that the DNOs have indicated a readiness to embrace change in the sector and to play their part in delivering Net Zero, it is important that the regulatory mechanisms support and assist in this delivery as opposed to becoming an obstacle to that investment. Any delay or reluctance to invest is not cost-free and is likely to result in a reduction in consumer value.

It is important that Ofgem addresses the lack of certainty over operation of the UMs and current work in this respect needs to be completed ahead of Final Determinations. In addition, as far as possible, these should be enacted via licence conditions so that the treatment of uncertainty can be properly considered when DNOs are deciding whether they can accept the Final Determinations.

#### b) The framework creates incentives to focus on funded activities at the expense of those subject to Uncertainty Mechanisms to the detriment of consumer value and delivery of policy objectives

The Draft Determinations do not demonstrate sufficient consideration as to the relationship between expenditure in certain cost categories and other mechanisms such as the Totex Incentive Mechanism (TIM).

Several re-openers are designed such that companies can merely recover their costs. Where DNOs do not have the opportunity to earn returns through seeking to find better and more efficient ways of doing things, this will have the effect of incentivising an alternative focus such as seeking cost reduction in other 'better understood' areas of expenditure and where these benefit from the TIM, or through delivery of outputs under ODIs.

As a result, there is a risk that critical areas, such as Physical Site Security or Electricity System Restoration, which are subject to UMs may be treated as being of secondary importance.

Where there is distortion in incentives and companies are artificially influenced by the regulatory regime to take one decision over another then there is a resulting loss of consumer value. This is undesirable and should be avoided.

Ofgem should seek to ensure that the important areas under Uncertainty Mechanisms are better incentivised and that companies are not encouraged to focus on baseline activities at the expense of new and additional areas of expenditure which are an increasing proportion of the price control (c.£1 in £5 is assumed by Ofgem to flow through uncertainty mechanisms).

c) **The cost of including revenues in Uncertainty Mechanisms appears to be largely ignored in Ofgem's Impact Assessment**

Uncertainty Mechanisms form a significant component of the DDs – much greater in scale and scope than RIIO-ED1 and also RIIO2 – GD&T.

It is therefore unusual, and we can only assume an oversight, that in the overall Impact Assessment of the RIIO-ED2 proposals there is a total absence of any consideration in relation to the costs to customers of the provision of revenues through uncertainty mechanisms as opposed to through the traditional *ex-ante*-based allowance mechanisms. By way of example, for the WPD group, at ED1 c.£1 in every £10 of total variant and non-variant expenditure was classified as variant, whereas in the Draft Determinations for ED2, this figure is around £1 in every £5.

The sole consideration of the “cost” or “impact” of the Uncertainty Mechanisms in the Impact Assessment relates to whether the incorporation of volumetric drivers will increase risk, resulting in Ofgem proposing further controls, such as an annual monitoring framework, a cap on the total expenditure over the ED2 period and a potential mid-period review of parameters.

d) **Specific windows for application of cost recovery imply that DNOs will incur significant costs at risk as to their recovery**

Many of the proposed UMs require DNOs to incur costs at risk prior to submitting re-openers to Ofgem for recovery. This might be several years after the expenditure has been incurred.

For example, costs incurred in 2023 in relation to physical security, digitalisation or High Value Projects cannot be submitted until 2026 and so recovery of those costs may not commence until 2027/28 or later. The re-openers will be subject to detailed scrutiny and the best result a company can hope to achieve is recovery of the costs incurred. However, the company must also be concerned that those actual costs may not be deemed efficient and so it may not ultimately recoup its costs in full.

As a greater proportion of expenditure becomes subject to a UM, we are in effect moving away from *ex-ante* to a situation in which more costs are assessed *ex-post*. This has the potential to reduce the responsiveness to customer needs, it diminishes the incentive to innovate and limits the opportunity to outperform. Unless the UMs are carefully specified and managed it gives rise to additional risk to companies in terms of risk of disallowance and of regulatory discretion.

It should be remembered that outperformance results in lower costs to consumers through the various sharing mechanisms and the company shares in that success.

## **2. Implications for Risk**

a) **Uncertainty Mechanisms add to risk in Regulatory Package**

Uncertainty Mechanisms play an important role in the regulatory framework given that there will be requirements placed on the DNOs where the associated outputs and costs are uncertain. For example, there are ongoing policy discussions in areas such as Net Zero, Digitalisation and Local System Operation, where DNOs will need to act when Government makes its policy intentions clear.

However, the use of Uncertainty Mechanisms can introduce greater risk into the overall Price Control package, as follows:

- the scope of work and overall expenditure on major cost categories such as load related expenditure, together with associated services such as design, project management, procurement etc, is unknown. This reduces a company's ability to plan and deliver efficiently

or with innovation

- the opportunity for outperformance is limited and in fact there is no guarantee that costs will be recovered
- an ex-ante allowance caters for the fact that projects are different – even the cost of a standard activity such as maintenance can vary due to, for example, site constraints. These differences are there to be managed and the company is judged on its overall delivery of, for example, the maintenance programme. However, UMs increase the risk of cherry-picking, whereby individual projects which incur greater cost can be singled-out but there is limited opportunity for outperformance to act as a counterbalance.
- Unless the design, metric and reporting requirements for a UM are decided upon ahead of Final Determinations, there is inevitably uncertainty as to how these will be managed, so absorbing management attention and potentially adding costs associated with data gathering and reporting.

b) [The Higher Materiality Threshold relative to RIIO-T2/GD2 gives rise to additional risk exposure for the DNOs relative to the Gas Distribution Companies](#)

The principles behind the design of UMs were laid out in detail at the RIIO-GD2/T2 price controls as a set of 'Common Design Parameters' to be applied across all RIIO price controls. Ofgem has carried across those principles into the ED2 price control, with one major exception.

The Materiality Threshold for the application of Uncertainty Mechanisms has been proposed as 1% of average annual base revenues (as defined in the Final Determinations) for ED2 as opposed to 0.5% in RIIO-T2/GD2 – a significant difference in the potential financial impact.

In the Draft Determinations consultation for RIIO-T2/GD2, Ofgem proposed a materiality threshold of 1% of baseline revenues, combined with 'aggregation' across UMs. At Final Determinations, and following responses to the consultation, Ofgem modified its approach and settled on a lower materiality threshold of 0.5% offset by there being no aggregation.

Ofgem and many of the respondents felt that this provided suitable protection for companies and consumers whilst still encouraging the companies to be efficient in their delivery of such activity. It had the additional benefit of avoiding further complexity being introduced to the framework through a new set of rules being required to govern aggregation.

Given this precedent, it is surprising that Ofgem has not carried across the 0.5% threshold as one of its design parameters and is yet again consulting on the use of 1% given that, for ED2, aggregation has already been ruled out.

The inconsistency between the RIIO-T2/GD2 materiality threshold and that which is proposed for RIIO-ED2 is more than a simple design decision. For WPD, c.£27m could be spent on any re-opener without it being triggered. In the absence of aggregation, that amount could be multiplied in delivering other activities subject to a UM, resulting in total unrecovered costs in the tens of millions.

We have estimated that for an 'average' DNO, spending to the threshold but without triggering it would be the equivalent of a 0.78% reduction in RoRE, whereas in GD2, a GDN would only face a - 0.42% reduction. This places a significant downside risk on the companies and one that is almost double that which the GDNs are exposed to, in a situation where Ofgem asserts the risk exposure is comparable.

Insofar as this risk is correlated to risks within the macroeconomy – and given that a number of the UMs relate to volume driven activity around Net Zero this seems highly probable – then it equally gives rise to higher levels of systemic risk which should be compensated through higher beta estimates within the cost of equity.

Even insofar as the risks can be diversified, they still nonetheless expose the company to greater potential downside which would warrant a higher choice of point estimate within the overall cost of capital or other financial protections to help ensure financeability and financial resilience.

Given this material difference in the treatment of the DNOs as against the GDNs, it is all the more surprising that Ofgem's current position is that DNOs are exposed to precisely the same level of systemic risk as the GDNs, with the proposed beta being identical to that in T2/GD2 to three decimal places. No explanation is provided by Ofgem as to why it believes this to be the case.

Introducing aggregation across the UMs would be one solution, however we believe that Ofgem's original decision that this would introduce further complexity was the correct one. The logical course of action is for Ofgem to align the ED2 framework with that used in T2/GD2 and set a materiality threshold at 0.5% of average annual baseline revenues.

#### c) The Uncertainty Mechanisms introduce additional Asymmetric Risk Exposure

The regulatory package as currently defined is already asymmetric in terms of risk and reward given Ofgem's proposals with respect to incentives and the choice of estimates in terms of Ongoing and Catch-Up efficiency. However, the UMs add to this in two specific ways.

Firstly, there is the application of the Materiality Threshold. In addition to the greater threshold for DNOs than GDNs giving rise to a higher level of risk exposure, as discussed above, the Materiality Threshold exposes companies to a level of asymmetric risk with a requirement to absorb 1% of baseline costs before it is triggered with no equivalent 'aiming up' in terms of the original ex ante specification. As a result, the Materiality Threshold introduces downside exposure without any equivalent or symmetric upside potential.

Secondly, there is the subject of cost recovery and an inherent asymmetry in the treatment of recovery of costs whereby companies can, under several of the Uncertainty Mechanisms, at best recover their incurred costs but have the potential for a level of clawback, disallowance, or under-recovery. Given the exposure is downside only the distribution of possible outcomes is not only asymmetric but truncated at the level of total costs incurred. If the expected level of disallowance was 3%, a relatively modest overall assessment, then an equivalent margin would need to be added to costs – or treated as an adjustment to the cost of capital in order to restore a level of symmetry within the framework.

The CAPM model employed by Ofgem to derive a cost of equity relies on the principle that the package is balanced and capable of being described in mean variance terms. Given the asymmetry of risk in relation to the application of Uncertainty Mechanisms with respect to both the points raised above – the application of Materiality Threshold and the basis for remuneration of cost recovery – in combination with other asymmetries within the package as detailed elsewhere - then this should be reflected in the choice of point estimate in the cost of equity with a view to reflecting a P50 position and in seeking to restore a level of symmetry to the package.

#### d) Additional Risks to Financeability

The consultant reports accompanying this response provide detailed analysis of the additional financing risks implied through the current RIIO-ED2 proposals.

Ofgem has declared specific capitalisation rates for expenditure captured by UMs. The proposed rates are significantly higher than the natural rates which apply elsewhere in the Price Control. Given the scale of expenditure which could be subject to a UM, there is a resultant risk of cashflow problems and financeability issues, stemming from excessive capitalisation. In addition, they will also dull the application of RAMs as the Regulated Equity base will grow more rapidly than under totex fast money/slow money.

Ofgem should consider a more appropriate capitalisation policy such that the companies obtain adequate fast money to support their activities. For simplicity, it would be sensible to align capitalisation rates for expenditure under UM with the rates applied to ex-ante expenditure.

### 3. Implications for Consumer Value

#### a) Acting on new Policy developments

Ofgem has proposed UMs relating to areas of emerging policy such as Net Zero, Digitalisation, Local System Operation and whilst there is merit in creating re-openers in response to these, the implications will be potential delays in responding to public policy decisions.

Following the launch of public policy, some delay is inevitable whilst Ofgem assesses the policy, consults on the implications, awaits costed proposals from the DNOs, further consults on its assessment of these plans and any changes to cost allowances, together with the drafting of directions or licence modifications etc. Whilst these processes are necessary, they can lead to substantial delay between a policy announcement and DNOs being empowered to act.

To minimise the risk of delay, we would propose that Ofgem provide an additional level of baseline funding which would enable DNOs to actively participate in policy development processes, to assess them, consider the implications and plan accordingly. This funding can be supported by a reopener to cover the costs associated with detailed policy implementation. We would argue that this would accelerate the DNOs' response to new policy.

#### b) Responding to Net Zero

In the Draft Determinations, Ofgem has taken a very conservative approach to Net Zero which is not wholly consistent with its supportive and facilitating language in its public statements. The only reasonable interpretation of this is that Ofgem is assuming that the adoption of LCTs will be slow.

Whilst we understand that Ofgem wants to manage the risk of stranded assets, we believe that Ofgem, as a primary facilitator of Net Zero, should be more confident in its attitudes to related expenditure and, as a minimum, adopt one of the more positive FES scenarios, as updated for 2022. It is arguable that there is no uncertainty over need, where the uncertainty lies is in the timing and pace of roll out, albeit that Government has made plain its aspirations in areas such as Heat Pump installation, ending the sale of ICE vehicles etc.

Moreover, the risk of stranding, and the cost to consumers which may arise from either under or delayed utilisation must be weighed against the potential value of consumer payoffs in the event that failure to act now results in delay or loss in consumer value at some subsequent stage. It is very possible that the latter may exceed the former and that the option value unlocked by acting now may be that which ultimately enhances and maximises consumer value in the longer term.

Furthermore, perhaps for convenience of modelling, Ofgem has taken the view that the uptake of LCTs will be uniform across GB. This fails to take into account the clear differences which exist between DNO regions. For example, a dense urban area, such as Birmingham might expect to see substantial penetration of EV charging, but making use of on-street infrastructure, given the lack of off-street parking. More remote areas may see a greater prevalence of heat pumps through the absence of the gas grid as an alternative, but a slower adoption of EVs due to range anxiety. Areas like the Southwest will continue to see greater uptake of domestic solar generation.

These different scenarios will require a different response by the relevant DNO. Given that all companies have undertaken extensive stakeholder engagement to better understand the needs of their communities and created detailed scenarios and models of demand, it does seem perverse to ignore these and rely on a vanilla view of GB need which is only guaranteed to be inaccurate.

Adopting a more positive outlook, informed by the regional perspective provided by the companies, will have the effect of moving more expenditure into ex-ante allowances rather than being only accessible via a UM. This will provide a tangible demonstrator of the importance of achieving our Net Zero objectives and remove some of the primary blockers to uptake by the general public as an ex-ante allowance caters for the fact that projects are inherently different – they will vary in terms of outperformance and underperformance, but in the round the package is delivered effectively and efficiently. UMs could increase the risk of cherry-picking, whereby individual projects which under-perform are singled-out but there is limited opportunity for outperformance to balance this out.

Every pound spent during ED2 will enable the public to make changes that will be required to decarbonise. We believe that this will be more efficient than waiting to a later date when a greater step change in expenditure will be required. Also, it will be more equitable as it ensures that current



consumers pay their share of the costs of Net Zero, as against this all falling on the shoulders of future consumers.

### c) The benefits of ex-ante funding

Whilst Ofgem emphasises the merits of UMs, in terms of limiting the risk of stranding of assets etc, there are some significant benefits associated with ex-ante funding that are being foregone, some of which are mentioned elsewhere in this paper. These can be summarised as follows:

- More effective planning - ex-ante funding enables companies to plan more effectively given larger programmes of activity. This brings both allocative and productive efficiency which the customer benefits from in terms of cost but also the flexibility that can be shown in meeting customer need.
- Delivering customer requirements – the provision of ex-ante funding removes one of the key barriers to progressing with activity. With funding in place, management is able to focus on delivery of the service and, in particular, meeting the customer's precise requirements whether that is in terms of timing, specification etc. Where a UM is in place, there is the inevitable tendency that companies will seek to minimise the risk of the costs not being recovered and that can result in offering less flexibility in solutions proposed to customers or being more prescriptive in the manner of their delivery.
- Promotes innovation – linked to the previous point, UMs have the potential to squeeze out innovative approaches. There may be more of an inclination towards a safety-first approach where work is subject to a UM.
- Reduced cost of delay – the customer benefits through a reduced cost of delay as the company can progress activity in line with customer need and without the potential constraints that might exist where there is a risk of cost being accumulated against a cost category covered by a UM.
- Reduces asymmetry in the package – as has been described, many UMs reinforce asymmetry as there is no guarantee that a company can recover its costs but also no means through which a company can out-perform. Use of ex-ante funding opens that opportunity for out-performance which directly benefits customers as well as the companies and strengthens the incentives for efficiency more generally.

## 11.3 Practical steps to improve the Uncertainty framework in ED2

Whilst Uncertainty Mechanisms offer benefits to both consumers and companies, they also have the potential to undermine some of the other virtues of an ex-ante regulatory framework. It is important that their use does not add unnecessary complexity, discourage innovation, or reduce responsiveness to consumer needs. Also, it should not be forgotten that the use of *ex-ante* allowances with powerful financial incentives has been shown to deliver cost efficiencies which consumers benefit from immediately and on an ongoing basis.

Given the challenges we face due to Climate Change, this combination of facilitating agility, innovation and cost efficiency is surely more relevant than ever to the design of network regulation.

We would encourage consideration of the following measures which we believe will retain the protective properties of UMs in ED2, but also serve to streamline and improve their use:

### *Management of risk*

- The proposed 1% materiality threshold places significant additional risk on companies and also risk which is asymmetric in nature, given the limited scope for outperformance in expenditure under UMs. Ofgem should follow the precedent set at GD2 and confirm a 0.5% materiality threshold, combined with no aggregation, as was the original intention during T2 and GD2. If it chooses not to do so, Ofgem will need to provide clear justification as to why it



believes the risks to DNOs are of a different magnitude to those faced in RIIO-T2/GD2 and make a further adjustment to its choice of estimate in the cost of capital.

- Ofgem acknowledges that there is still work to do to define the ways in which some UMs will operate, be reported upon etc. As things stand, it is difficult to fully appraise the risk and reward balance within the overall ED2 package. It is important that Ofgem provides adequate guidance and that this is available no later than Final Determinations such that companies are able to decide whether the package is acceptable or otherwise.
- Physical site security, cyber resilience and electricity system restoration are important to the security and integrity of the electricity networks. We would recommend that these be re-classified as pass-through costs such that the focus is on their delivery rather than having to wait for application windows and then to invest management time in re-openers. Alternatively, an ex-ante allowance could be provided with a clawback mechanism (UIOLI) should expenditure not be required.

### ***Responding to Net Zero***

- Ofgem should look to make greater use of ex-ante allowances for load related expenditure, particularly in the early years of the price control, and perhaps in combination with PCDs. Re-openers or a mid-period review can then be employed to set allowances for the remainder of the period based on actual activity/expenditure and the greater certainty that will then exist in terms of the uptake of LCTs.
- As part of refining its final proposals on load-related expenditure, Ofgem should take greater note of the regional variations in forecasts for the uptake of LCTs. Also, it should adopt a more optimistic scenario from the FES, rather than the most conservative as at present. Whatever the choice of scenario, it should be updated for 2022.

### ***Transformation of the Energy Sector***

- There will be significant interdependencies between policy decisions relating to Net Zero, Digitalisation, DSO etc. In light of this, rather than having individual reopeners for each, with disparate timing, we would recommend a consolidated, single Policy Delivery UM, open to both Ofgem and the DNOs to trigger, which would encourage more holistic responses to public policy developments. This should be combined with additional baseline funding to ensure the DNOs are able to engage proactively with policy development and so be in the best position to respond thoughtfully but rapidly.
- The Coordinated Adjustment Mechanism is an important recognition of whole system thinking. We believe that it should be subject to the TIM such that companies are incentivised to explore opportunities to work with other networks to deliver the optimum solution for the customer.

## Annex A – Detail of Uncertainty Mechanisms

The tables below document the uncertainty mechanisms proposed by Ofgem in its ED2 Draft Determinations.

They have been grouped by UM type and show information on the driver of the UM and its operation. In addition, the tables show whether the UM has appeared in the various consultative stages of the price control from SSMC to DD.

UM	Type	Driver of uncertainty	SSMC	SSMD	DD	Trigger	Window	Materiality
<b>Coordinated Adjustment Mechanism (CAM)</b>	Re-opener	Occurrence and highly specific	X	X	X	Both network cos.	Annual in May	Costs recovered - No threshold or incentive
<b>Environmental re-opener</b>	Re-opener	Requirement	X	X	X	Ofgem	Anytime	1%
<b>Net Zero re-opener</b>	Re-opener	Requirement	X	X	X	Ofgem	Anytime	1%
<b>Digitalisation re-opener</b>	Re-opener	Requirement			X	DNO/Ofgem	For DNOs (24/1/26-31/1/26). Ofgem at anytime	1%
<b>DSO re-opener</b>	Re-opener	Requirement			X	Ofgem	Anytime	1%
<b>Storm Arwen</b>	Re-opener	Requirement			X	DNO (resulting from Ofgem or E3C recommendations)	22/1/24 - 26/1/24	1%
<b>Physical security</b>	Re-opener	Requirement	X	X	X	DNO	24/1/26-31/1/26 and 24/1/28 - 31/1/28	Costs recovered - No threshold or incentive
<b>Electricity system restoration</b>	Re-opener	Requirement	X	X	X	DNO - window, Ofgem anytime	24/6/24-28/6/24	Costs recovered - No threshold or incentive
<b>Cyber resilience OT and IT</b>	Re-opener	Requirement	X	X	X	DNO window, Ofgem anytime	1/4/23-7/4/23 and 1/4/25-7/4/25	No threshold, but consideration will be given to achievement against PCDs
<b>Streetworks costs</b>	Re-opener	Costs	X	X	X	DNO - window, Ofgem anytime	24/1/26 - 31/1/26	1%
<b>Diversions (Rail electrification)</b>	Re-opener	Requirement	X	X	X	DNO - window, Ofgem anytime	24/1/24 - 31/1/24 and 24/1/26 - 31/1/26	1%

UM	Type	Driver of uncertainty	SSMC	SSMD	DD	Trigger	Window	Materiality
High Value Projects	Re-opener	Requirement			X	DNO	22/1/26 - 26/1/26	Applies to Non-load only schemes > £25m
Tax Review	Re-opener	Costs	X	X	X	Ofgem (when tax change is greater than 0.33% of opening base revenue allowances or the effect of a 1% change in Corporation Tax)	At any time	1%
LRE - General	Re-opener	Costs	X	X	X	DNO	April 2025	1%

UM	Type	Driver of Uncertainty	SSMC	SSMD	DD
Real Price Effects	Indexation	Cost	X	X	X
Cost of debt indexation	Indexation	Cost	X	X	X
Cost of equity indexation	Indexation	Cost	X	X	X
Inflation indexation of Regulatory Asset Value (RAV)	Indexation	Cost	X	X	X

UM	Type	Driver of Uncertainty	SSMC	SSMD	DD	Trigger	Window	Materiality
<b>Ofgem licence fee</b>	Pass-through	Cost	X	X	X		Annual reporting	No threshold
<b>Business rates</b>	Pass-through	Cost	X	X	X	Revaluation of assets by valuation agency	Annual reporting	No threshold
<b>Transmission Connection Point charges</b>	Pass-through	Requirement			X		Annual reporting	No threshold
<b>Pension deficit repair mechanism</b>	Pass-through	Requirement	X	X	X		Annual reporting	No threshold
<b>Ring-fence costs</b>	Pass-through	Cost			X		Annual reporting	No threshold
<b>Miscellaneous pass-through</b>	Pass-through	Cost	X	X	X		Annual reporting	No threshold
<b>Severe Weather 1-in-20</b>	Pass-through	Requirement	baseline	baseline	X	DNO	Anytime	All costs uncapped which meet criteria TBD
<b>Smart meter information technology costs</b>	Pass-through	Requirement			X		Annual reporting	No threshold
<b>Smart meter communications costs</b>	Pass-through	Cost			X		Annual reporting	No threshold

UM	Type	Driver of Uncertainty	SSMC	SSMD	DD	Trigger	Window	Materiality
<b>Visual amenity</b>	UIOLI	Requirement			X	DNO	Ongoing	total £5.6m available (impacted by econometric modelling)
<b>Worst Served Customers</b>	UIOLI	Requirement			X	DNO	Ongoing	upfront allowance (but with no clawback) - WPD £3m out of £86m
<b>Cyber Resilience OT</b>	UIOLI	Requirement	Baseline	Baseline	X	DNO	Ongoing	Test associated with PCDs = focussed on solutions rather than efficiencies

UM	Type	Driver of Uncertainty	SSMC	SSMD	DD	Trigger	Window	Materiality
<b>Polychlorinated biphenyls</b>	Volume driver	Requirement			X	Automatic	Before 31/12/25	No threshold, but requires DNOs to make proposals on method of identifying PMTs to replace
<b>Load Related Expenditure (LRE) – Secondary Reinforcement</b>	Volume driver	Requirement			X	Automatic	Ongoing	
<b>LRE – Low Voltage (LV) Services</b>	Volume driver	Requirement			X	Automatic	Ongoing	

In addition, Ofgem are consulting on the introduction of a new Directly Remunerated Service (DRS) to cater for a situation in which the DNO is obliged to act as Electric Vehicle Provider of Last Resort:

UM	Type	Driver of Uncertainty	SSMC	SSMD	DD	Trigger	Window	Materiality
<b>Electric Vehicle Provider of Last Resort</b>	DRS (TBC)	Requirement			X	N/A	Annual	No threshold if DRS