

# Decision

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## Physical Security Re-opener Final Determinations

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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.

In September 2024, we issued our Draft Determinations (DD) for consultation on our assessment of eight network companies' re-opener application submissions under the Physical Security Re-opener mechanism. As the applications related to Critical National Infrastructure (CNI) and due the sensitive national security related information contained in the submissions and in our consultation documents, the consultation was not public but instead shared with the relevant licensees.

This document sets out our Final Determinations (FD) following appropriate consideration of the consultation responses. Unlike our DDs, our FD document does not contain sensitive information and therefore may be made public.

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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 The Physical Security Re-openers provide network companies with specific windows within the RIIO-2 period where they can request additional funding to cover costs associated with responding to government mandated security changes (changes to government policy and/or the CNI list). The process for making changes to government policy or the CNI list was previously known as the ‘Physical Security Upgrade Programme’ (PSUP). Although DESNZ no longer uses the PSUP terminology, the process remains the same for the Physical Security re-openers for electricity and gas transmission and gas distribution, and similar for electricity distribution (as the sector has newer licence conditions). The Physical Security Re-opener funding helps network companies to ensure that they are compliant with government security standards and that they appropriately mitigate national security risks.
- 1.9 **Table 1** below provides the full list of network companies we regulate through RIIO and the abbreviations we use when referring to them throughout this document.

**Table 1: RIIO regulated onshore 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	NPGY

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Sector	Company Group	Sector Group	Network	Network Short Name
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	SSEN Distribution	SSEN Distribution - Hydro	SSEH
ED	Scottish and Southern Energy	SSEN Distribution	SSEN Distribution - Southern	SSSES
ED	UK Power Networks	UK Power Networks	UK Power Networks - East	EPN
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	WM
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 for ED sector, where specific costs and allowance values are given in this document they are in 2020/21 prices. For all other sectors, specific costs and allowance values are in 2018/19 prices. This is to align with the price bases used in setting the RIIO-2 price controls. Where all sector total values are given, they are given in 2024/25 prices, which is the latest full regulatory year for which we have final price index figures.

### Decision-making stages

Date	Stage description
12/09/2024	Stage 1: Consultation open
11/10/2024	Stage 2: Consultation closes (awaiting decision), Deadline for responses
Oct 2024 to Mar 2025	Stage 3: Responses reviewed
03/04/2025	Stage 4: Consultation decision

### **General feedback**

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this 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.gov.uk](mailto:stakeholders@ofgem.gov.uk).



## 2. Summary of our Final Determinations

2.1 In our DD's we proposed to approve a total of £124.466m, which is £5.561m (2023/24 prices) less than the eight network companies requested. Our FDs predominantly confirm our FD positions with some minor funding adjustment to give final allowance total of £124.745 (2023/24 prices). **Table 2** below summarises our DDs and FDs for each network company

**Table 2: Summary of our DDs and FDs for all network companies (£m)**

Sector	Sector Group	Price Base	Company Forecast costs	DD Cost adjustment	Ofgem's DD Allowances	Ofgem's Adjustment from DD to FD	Ofgem's FD allowances
<b>ET</b>	National Grid Electricity Transmission	2018/19	1.444	0.007	1.451	-0.045	1.406
<b>ET</b>	Scottish Hydro Electric Transmission	2018/19	-	-	-	-	-
<b>ET</b>	SP Transmission	2018/19	41.804	-0.140	41.664	-0.625	41.039
<b>ET</b>	<b>Sector Total</b>	2018/19	<b>43.248</b>	<b>-0.133</b>	<b>43.115</b>	<b>-0.669</b>	<b>42.446</b>
<b>GT</b>	National Gas Transmission	2018/19	21.107	0.317	21.424	-0.160	21.264
<b>GT</b>	<b>Sector Total</b>	2018/19	<b>21.107</b>	<b>0.317</b>	<b>21.424</b>	<b>-0.160</b>	<b>21.264</b>
<b>ED</b>	Electricity North West	2020/21	0.530	-	0.530	-	0.530
<b>ED</b>	Northern Powergrid	2020/21	2.074	-	2.074	-	2.074
<b>ED</b>	National Grid Electricity Distribution	2020/21	17.051	-	17.051	-	17.051
<b>ED</b>	SP Energy Networks	2020/21	-	-	-	-	-
<b>ED</b>	SSEN Distribution	2020/21	-	-	-	-	-
<b>ED</b>	UK Power Networks	2020/21	-	-	-	-	-
<b>ED</b>	<b>Sector Total</b>	2020/21	<b>19.655</b>	<b>-</b>	<b>19.655</b>	<b>-</b>	<b>19.655</b>
<b>GD</b>	Cadent	2018/19	11.515	-4.649	6.866	+1.053	7.919
<b>GD</b>	Northern Gas Networks	2018/19	-	-	-	-	-
<b>GD</b>	Scotia Gas Networks	2018/19	-	-	-	-	-
<b>GD</b>	Wales & West Utilities	2018/19	9.605	-	9.605	-	9.605
<b>GD</b>	<b>Sector Total</b>	2018/19	<b>21.120</b>	<b>-4.649</b>	<b>16.471</b>	<b>+1.053</b>	<b>17.524</b>
<b>All</b>	<b>All Sector Total</b>	2018/19	<b>104.405</b>	<b>-4.465</b>	<b>99.939</b>	<b>+0.224</b>	<b>100.163</b>
<b>All</b>	<b>All Sector Total</b>	2020/21	<b>108.406</b>	<b>-4.637</b>	<b>103.770</b>	<b>+0.232</b>	<b>104.002</b>
<b>All</b>	<b>All Sector Total</b>	2023/24	<b>130.027</b>	<b>-5.561</b>	<b>124.466</b>	<b>+0.279</b>	<b>124.745</b>

### Total amount that consumers will pay through their bills

2.2 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>3</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 networks 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).

2.3 We have estimated how much the funding decisions in our FDs will cost consumers in total full 45-year periods over which consumers will be paying the network companies through their energy bills. The total amount that consumers will pay to each network company is summarised in **Table 3** 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 regulatory year). It should be noted that the allowance figures are for all price control periods, i.e. they include RII0-2 allowances, as well as any allowances that will be awarded through subsequent price controls:

- For the total £125m physical security re-opener allowances approved, consumers will pay an estimated £195m (i.e. an additional £70m) to the network companies,
- The additional amount paid by consumers is to cover the companies' debt interest payments and shareholder returns. This breaks down as follows:
  - An additional £28m (+22% of total re-opener allowances) will be paid by consumers to cover the network companies' debt interest payments, and
  - An additional £42m (+34% of total allowances) will be paid by consumers to the network companies as a return on their shareholders' investments.
- The present value (PV) of the total amount to be paid by consumers to the network companies is £117m. The PV is an adjusted value to allow us to account for the time value of money. The PV figures reflect that £1 paid in future years will in effect cost less than £1 paid today. We use the

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<sup>3</sup> Capitalisation and gearing rates, and the Cost of Debt and Equity values for each licensee are as per the Finance Annexes of our RII0-2 final determinations. Cost of Debt is updated annually. However, for our estimations we have kept the individual licensees' Cost of Debt values constant.

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Government Green Book<sup>4</sup> social time preference rate (STPR) for this purpose.

- 2.4 It should be noted the estimates are based on the 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 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 that consumers may pay to network companies to cover the tax payable on their profits.

**Table 3: Estimated total amount to be paid by consumers through their bills for these Final Determinations, £m**

Sector	Company	Price Base	Re-opener Allowances	Additional Allowances	Company Debt Repayments	Company Shareholder Return	Total Paid by Consumers	PV of Total Paid by Consumers
ET	NGET	2018/19	1.41	-	0.28	0.50	<b>2.18</b>	1.32
ET	SHET	2018/19	-	-	-	-	-	-
ET	SPT	2018/19	41.04	-	8.03	14.51	<b>63.58</b>	37.39
<b>ET</b>	<b>Sector Total</b>	<b>2018/19</b>	<b>42.44</b>	-	<b>8.31</b>	<b>15.01</b>	<b>65.76</b>	<b>38.71</b>
GT	NGT	2018/19	21.26	-	4.01	6.31	<b>31.58</b>	19.52
<b>GT</b>	<b>Sector Total</b>	2018/19	21.26	-	4.01	6.31	<b>31.58</b>	19.52
ED	ENWL	2020/21	0.53	-	0.19	0.22	<b>0.93</b>	0.57
ED	NPg	2020/21	2.07	-	0.73	0.85	<b>3.65</b>	2.22
ED	NGED	2020/21	17.05	-	6.02	6.97	<b>30.05</b>	17.49
ED	SPEN	2020/21	-	-	-	-	-	-
ED	SSEN	2020/21	-	-	-	-	-	-
ED	UKPN	2020/21	-	-	-	-	-	-
<b>ED</b>	<b>Sector Total</b>	<b>2020/21</b>	<b>19.66</b>	-	<b>6.94</b>	<b>8.04</b>	<b>34.63</b>	<b>20.28</b>
GD	Cadent	2018/19	7.92	-	1.39	2.19	<b>11.51</b>	7.40
GD	NGN	2018/19	-	-	-	-	-	-
GD	SGN	2018/19	-	-	-	-	-	-
GD	WWU	2018/19	9.61	-	1.74	2.66	<b>14.01</b>	8.87
<b>GD</b>	<b>Sector Total</b>	<b>2020/21</b>	<b>17.53</b>	-	<b>3.14</b>	<b>4.85</b>	<b>25.51</b>	<b>16.27</b>
<b>All</b>	<b>All Sectors Total</b>	<b>2018/19</b>	<b>100.16</b>	-	<b>22.13</b>	<b>33.92</b>	<b>156.21</b>	<b>94.02</b>
<b>All</b>	<b>All Sectors Total</b>	<b>2020/21</b>	<b>104.00</b>	-	<b>22.98</b>	<b>35.22</b>	<b>162.20</b>	<b>97.63</b>
<b>All</b>	<b>All Sectors Total</b>	<b>2023/24</b>	<b>124.74</b>	-	<b>27.56</b>	<b>42.24</b>	<b>194.55</b>	<b>117.10</b>

<sup>4</sup> <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020>

### 3. Electricity Transmission (ET) Final Determinations

#### National Grid Electricity Transmission plc (NGET)

3.1 **Table 4** below provides a summary of our DD allowance proposals and our FD following consideration of the consultation responses.

**Table 4: Summary of our DDs and FDs for NGET (£m, 2018/19 Prices)**

	Forecast costs/allowances/adjustments	Document	Formula	Value (£m)
<b>A</b>	<b>Company forecast RIIO-2 costs</b>	<b>Company submission</b>		<b>1.444</b>
B	Adjustment: Risk allowance	Draft Determinations		+0.007
<b>C</b>	<b>DD RIIO-2 Allowances</b>	<b>Draft Determinations</b>	<b>Sum(A to B)</b>	<b>1.451</b>
D	Error correction: Risk Allowance	Final Determinations		-0.045
<b>E</b>	<b>FD RIIO-2 Allowances</b>	<b>Final Determinations</b>	<b>Sum(C to D)</b>	<b>1.406</b>

#### Summary of our Draft Determinations

3.2 NGET requested £1.444m for the physical security elements of an extension to one CNI site, the need for which only became apparent after its RIIO-T2 business plan submission. We agreed that NGET's needs case was valid as the work is necessary to comply with National Protective Security Authority (NPSA) requirements. We proposed to approve an additional allowance of £1.451m, which reflected approval of NGET's full funding request as well as a £0.007m top up on its estimated risk allocation in line with our policy to approve a flat rate of 7.5% risk allowance on most RIIO-2 re-opener mechanisms. We explain our position on the application of 7.5% re-opener risk rate in our [Decision on the assessment of three 2023 SPT's MSIP full applications](#), published on 28 February 2024.

#### Consultation response

3.3 NGET did not respond to the consultation.

#### Our Final Determinations

3.4 Our FD is substantially unchanged from our DD. However, correction of an error in the calculation of risk allowances (see Chapter 7 below) has reduced the allowance by £0.045m to give final allowance of £1.406m.

## SP Transmission plc (SPT)

3.5 **Table 5** below provides a summary of our DD allowance proposals and our FD following consideration of the consultation responses.

**Table 5: Summary of our DDs and FDs for SPT (£m, 2018/19 Prices)**

	Forecast costs/allowances/adjustments	Document	Formula	Value (£m)
A	Company forecast RIIO-2 costs	Company submission		41.804
B	Company forecast RIIO-3 costs	Company submission		24.550
<b>C</b>	<b>Company forecast total costs</b>	<b>Company submission</b>	<b>Sum(A to B)</b>	<b>66.354</b>
D	Adjustment: Risk allowance (RIIO-2)	Draft Determinations		-0.140
E	Adjustment: Risk allowance (RIIO-3)	Draft Determinations		-3.418
<b>F</b>	<b>DD total assessed efficient costs</b>	<b>Draft Determinations</b>	<b>Sum(C to E)</b>	<b>62.796</b>
G	DD RIIO-3 Allowances	Draft Determinations		-
H	<b>DD RIIO-2 Allowances</b>	<b>Draft Determinations</b>	<b>=A + D</b>	<b>41.664</b>
<b>I</b>	<b>DD total assessed efficient costs</b>	<b>Draft Determinations</b>	<b>=F</b>	<b>62.796</b>
J	Error correction: Risk Allowance	Final Determinations		-0.625
<b>K</b>	<b>FD total assessed efficient costs</b>	<b>Final Determinations</b>	<b>Sum(I to J)</b>	<b>62.171</b>
L	FD RIIO-3 Allowances	Final Determinations	<b>=B + E</b>	21.132
<b>M</b>	<b>FD RIIO-2 Allowances</b>	<b>Final Determinations</b>		<b>41.039</b>

### Summary of our Draft Determinations

3.6 SPT requested £41.804m additional RIIO-2 allowances for physical security enhancements of 11 CNI sites, 8 of which have been newly classified as CNI or reclassified to a higher CNI Category, 2 are unchanged in classification, and 1 has a decreased classification. A number of the projects are expected to continue into RIIO-3, with SPT forecasting and additional £24.550m in expenditure, bringing total forecast costs to £66.354m.

3.7 We proposed to accept SPT's needs cases for the proposed works as it is necessary either due to the increased CNI classification, and/or to meet NPSA standards. We proposed additional RIIO-2 allowances of £41.664m, with the £0.140m disallowance on risk to bring it in line with our policy to apply a flat rate of 7.5% risk allowance on most RIIO-2 re-opener mechanisms. We explain our position on the application of 7.5% re-opener risk rate in our [Decision on the assessment of three 2023 SPT's MSIP full applications](#), published on 28 February 2024. We suggested that any RIIO-3 funding will be dealt with as part of the RIIO-3 Business Plan process.

### Consultation response

3.8 SPT agreed with our DDs in respect of RIIO-2 allowances but requested that our FDs confirm allowances for the full projects, including elements to be delivered in RIIO-3. It proposed revision of the associated Price Control Deliverables (PCDs) to define deliverables on Site A, B, C, D, E, H and K. The works at these sites are

due for completion in RIIO-3. SPT has proposed interim deliverables on these sites for the end of RIIO-T2, 31 March 2026.

- 3.9 SPT also expressed disagreement, as previously expressed in its earlier response to the 2024 Medium Sized Investment Project (MSIP) consultation<sup>5</sup>, with our approach to setting risk allowances. In SPTs view our “use of [a 7.5%] average value cap on risk provision is arbitrary, non-project specific and fails to consider the evidence on each project”.

### **Our Final Determinations**

- 3.10 Our FD confirms our proposals in respect of RIIO-2 funding. However, correction of an error in the calculation of risk allowances (see Chapter 7 below) has reduced the allowance by £0.625m to give final allowance of £41.039m.
- 3.11 We also confirm £21.132m allowances for RIIO-3. This RIIO-3 allowance figure has been adjusted similarly to the RIIO-2 allowances to bring the risk allocation in line with the standard 7.5% rate. The total approved funding for SPT on the 11 sites is therefore £62.171m.
- 3.12 We acknowledge SPT’s continued disagreement with our approach to risk allowances. However, our position on the application of 7.5% re-opener risk rate is unchanged from of DD and as explained in our [Decision on the assessment of three 2023 SPT’s MSIP full applications](#), published on 28 February 2024.

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<sup>5</sup> The 2024 MSIP applications were consulted on from 3 September 2024 as part of the [Draft Determinations on RIIO-2 re-opener applications 2024: Electricity Transmission, Electricity Distribution and Gas Distribution](#)

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## 4. Gas Transmission (GT) Final Determinations

### National Gas Transmission plc (NGT)

4.1 **Table 6** below provides a summary of our DD allowance proposals and our FD following consideration of the consultation responses.

**Table 6: Summary of our DDs and FDs for NGT (£m, 2018/19 Prices)**

	Forecast costs/ allowances/adjustments	Document	Formula	Value (£m)
<b>A</b>	<b>Company forecast RIIO-2 costs</b>	<b>Company submission</b>		<b>21.107</b>
B	Adjustment: Risk Allowance	Draft Determinations		+0.317
<b>C</b>	<b>DD RIIO-2 Allowances</b>	<b>Draft Determinations</b>	<b>Sum(A to B)</b>	<b>21.424</b>
D	Error correction: Risk Allowance	Final Determinations		-0.317
E	Additional request: IT Terminal	Company submission		+0.170
F	IT Terminal disallowances	Final Determinations		-0.014
<b>G</b>	<b>FD RIIO-2 Allowances</b>	<b>Final Determinations</b>	<b>Sum(C to F)</b>	<b>21.264</b>

### Summary of our Draft Determinations

4.2 Following a 2021 review of CNI sites by the Department of Energy Security & Net Zero (DESNZ), 96 of NGT's sites were classified as CNI Category 3 or above. NGT requested additional allowances of £21.107m for works at four sites needed to comply with NPSA guidance in RIIO-2, and for survey and design work at a further four sites.

4.3 Our DDs agreed that NGT's needs cases were valid and proposed to approve £21.424m additional allowance, which reflected approval of NGT's full funding request as well as a £0.317m top up on its estimated risk allocation in line with our policy to apply a flat rate of 7.5% risk allowance on most RIIO-2 re-opener mechanisms. We explain our position on the application of 7.5% re-opener risk rate in our [Decision on the assessment of three 2023 SPT's MSIP full applications](#), published on 28 February 2024.

### Consultation response

4.4 NGT agreed with our DDs overall. However, it has also requested that an additional £0.170m be added to its allowance for building work associated with the installation of a secure IT terminal that formed part of a separate Cyber Resilience Information Technology Re-opener (SpC 3.3) application. The funding under the cyber re-opener was disallowed as we did not consider it to be within scope of that mechanism.

4.5 NGT also commented that although it was accepting of the allowances proposed for risk allocation, it did not agree with the principle of applying a flat 7.5% rate to re-opener submissions. NGT's view is that the "outturn risk data from the

electricity transmission sector [that was used to calculate the 7.5%] may not be representative of the outturn risks in the gas transmission sector”.

### **Our Final Determinations**

- 4.6 NGTs funding request for its IT Terminal was assessed at the time of its Cyber Resilience Information Technology Re-opener application, and although we considered the associated building work to be out of scope of that mechanism, we agree that it is justified and we therefore now approve an additional £0.157m allowance. This is less than the £0.170m requested as we have disallowed costs for furniture, air conditioning unit, flooring, ceiling, and decoration as these should be funded through baseline allowances.
- 4.7 We acknowledge NGT’s disagreement with our approach to risk allowances. However, our position on re-opener risk allowances is unchanged from DD and as explained in our [Decision on the assessment of three 2023 SPT’s MSIP full applications](#), published on 28 February 2024. However, correction of an error in the calculation of risk allowances (see Chapter 7 below) has reduced the allowance and brought it in line with NGT’s original estimate. We have therefore removed the £0.317m that was added at DDs.



## 5. Electricity Distribution (ED) Final Determinations

### Electricity North West Limited (ENWL)

5.1 **Table 7** below provides a summary of our DD allowance proposals and our FD following consideration of the consultation responses.

**Table 7: Summary of our DDs and FDs for ENWL (£m, 2020/21 Prices)**

	Forecast costs/allowances /adjustments	Document	Formula	Value (£m)
<b>A</b>	<b>Company forecast RIIO-2 costs</b>	<b>Company submission</b>		<b>0.530</b>
B	No DD Adjustments	Draft Determinations		-
<b>C</b>	<b>DD RIIO-2 Allowances</b>	<b>Draft Determinations</b>	<b>Sum(A to B)</b>	<b>0.530</b>
D	No FD Adjustments	Final Determinations		
<b>E</b>	<b>FD RIIO-2 Allowances</b>	<b>Final Determinations</b>	<b>Sum(C to D)</b>	<b>0.530</b>

### Summary of our Draft Determinations

5.2 ENWL requested £0.530m for the installation of secure doors, door access controls, lift access controls, and for IT project management at three sites.

5.3 We agreed with ENWL that the proposed work is necessary to comply with NPSA guidance and proposed to approve the full £0.530m requested.

### Consultation response

5.4 ENWL agreed with our Draft Determinations.

### Our Final Determinations

5.5 Our FD is to confirm our DD and to approve £0.530m additional allowances.

### Northern Powergrid (Yorkshire) plc (NPg)

5.6 **Table 8** below provides a summary of our DD allowance proposals and our FD following consideration of the consultation responses.

**Table 8: Summary of our DDs and FDs for NPg (£m, 2020/21 Prices)**

	Forecast costs/allowances /adjustments	Document	Formula	Value (£m)
<b>A</b>	<b>Company forecast RIIO-2 costs</b>	<b>Company submission</b>		<b>2.074</b>
B	No DD Adjustments	Draft Determinations		-
<b>C</b>	<b>DD RIIO-2 Allowances</b>	<b>Draft Determinations</b>	<b>Sum(A to B)</b>	<b>2.074</b>
D	No FD Adjustments	Final Determinations		
<b>E</b>	<b>FD RIIO-2 Allowances</b>	<b>Final Determinations</b>	<b>Sum(C to D)</b>	<b>2.074</b>

### Summary of our Draft Determinations

5.7 NPg requested £2.074m for increased physical security measures at three sites that have been re-classified from CNI Category 2 to CNI Category 3. The

proposals include installation of deterrence signs and security lighting, upgrades to security fencing, the installation of Electrical Perimeter Intruder Detection Systems (EPIDs), and installation of CCTV.

- 5.8 We agreed that additional physical security is needed as a result of the increase in CNI categorisation and that NPg's proposals are required to comply with NPSA guidance. We proposed to approve the full £2.074m requested by NPg.

### **Consultation response**

- 5.9 NPg agreed with our Draft Determinations.

### **Our Final Determinations**

- 5.10 Our FD is to confirm our DD and to approve £2.074m additional allowances.

## **National Grid Electricity Distribution plc (NGED)**

- 5.11 **Table 9** below provides a summary of our DD allowance proposals and our FD following consideration of the consultation responses.

**Table 9: Summary of our DDs and FDs for NGED (£m, 2020/21 Prices)**

	<b>Forecast costs/allowances /adjustments</b>	<b>Document</b>	<b>Formula</b>	<b>Value (£m)</b>
<b>A</b>	<b>Company forecast RIIIO-2 costs</b>	<b>Company submission</b>		<b>17.051</b>
B	No DD Adjustments	Draft Determinations		-
<b>C</b>	<b>DD RIIIO-2 Allowances</b>	<b>Draft Determinations</b>	<b>Sum(A to B)</b>	<b>17.051</b>
D	No FD Adjustments	Final Determinations		
<b>E</b>	<b>FD RIIIO-2 Allowances</b>	<b>Final Determinations</b>	<b>Sum(C to D)</b>	<b>17.051</b>

### **Summary of our Draft Determinations**

- 5.12 NGED requested £17.051m for seven projects covering a number of sites, including operational telecommunication sites, non-operational Alarm Receiving Centres (ARC), Disaster Recovery (DR) sites, and data centre sites that have been re-classified into higher CNI categories. The proposed works include the installation of perimeter fencing, on-site surveillance, and security barriers, which NGED assessed to be necessary to ensure compliance with NPSA guidance.
- 5.13 We agreed that NGED's proposals are required to comply with NPSA guidance and proposed the award of the full £17.051m allowances requested.

### **Consultation response**

- 5.14 NGED agreed with our Draft Determinations.

### **Our Final Determinations**

- 5.15 Our FD is to confirm our DD and to approve £17.051m additional allowances.

## 6. Gas Distribution (GD) Final Determinations

### Cadent Gas Limited (Cadent)

6.1 **Table 10** below provides a summary of our DD allowance proposals and our FD following consideration of the consultation responses.

**Table 10: Summary of our DDs and FDs for Cadent (£m, 2018/19 Prices)**

	Forecast costs/allowances /adjustments	Document	Formula	Value (£m)
<b>A</b>	<b>Company forecast RIIO-2 costs</b>	<b>Company submission</b>		<b>11.515</b>
B	Adjustment: Risk Allowance	Draft Determinations		-0.518
C	Adjustment: Asset Refresh	Draft Determinations		-2.898
D	Adjustment: Control Room	Draft Determinations		-1.234
<b>E</b>	<b>DD RIIO-2 Allowances</b>	<b>Draft Determinations</b>	<b>Sum(A to D)</b>	<b>6.866</b>
F	Allow: Control Room	Final Determinations	= -D	+1.234
G	Adjustment: Control Room Risk			-0.024
H	Error correction: Risk Allowance			-0.156
<b>I</b>	<b>FD RIIO-2 Allowances</b>	<b>Final Determinations</b>	<b>Sum(E to H)</b>	<b>7.919</b>

### Summary of our Draft Determinations

6.2 Cadent requested a total of £11.515m for:

- Reclassified sites: physical security upgrades at six sites reclassified as CNI Category 3 (£7.384m),
- Asset refresh: the refresh of Operational Telecommunications (OpTel) assets at four CNI Category 3 sites (£2.898m), and
- Control room: the installation of a secondary system to safeguard Cadent's primary Integrated Security System at its Control Room (£1.234m).

6.3 We agreed with Cadent's proposals for its reclassified sites as we assessed the works to be necessary to comply with NPSA guidance for CNI Category 3 sites. We proposed to approve additional allowances of £6.866m, with the £0.518m reduction attributable to our adjustment of the risk allocation in line with our policy to apply a flat rate of 7.5% risk allowance on most RIIO-2 re-opener mechanisms. We explain our position on the application of 7.5% re-opener risk rate in our [Decision on the assessment of three 2023 SPT's MSIP full applications](#), published on 28 February 2024.

6.4 We proposed rejecting Cadent's asset refresh funding request as we considered the proposals to be routine business-as-usual (BAU) activities.

6.5 We also proposed rejecting Cadent's control room funding request. Although we understand Cadent's need to protect its systems by installing a separate secondary system, we rejected the request as it was not in response to a change

in CNI categorisation or in government requirements and is therefore out of scope of the Physical Security Re-opener.

### **Consultation response**

- 6.6 Cadent stated that it agreed with our needs case assessment but disagreed with our proposals to reduce its risk allowances from 14.4% to 7.5% and our proposal to disallow the costs associated with asset refresh works and a secondary control room.

#### Asset refresh

- 6.7 Cadent disagreed with our view that the asset refresh projects are BAU and therefore out of scope of the PSUP re-opener. Cadent stated that the RIIO-GD2 Business Plan Incentive (BPI) would have penalised them for including low confidence costs within their RIIO-GD2 business plan. Cadent excluded the costs associated with the asset refresh work as at the time they were uncertain and inclusion would have led to a penalty under the BPI. However, Cadent did agree with our suggestion that two of the projects should be included in its RIIO-GD3 business plan and has revised its request to £2.730 (a reduction of £0.170) to reflect this change.

#### Control room

- 6.8 Cadent disagreed with our proposal to reject the needs case for its secondary control room.
- 6.9 Cadent explained that the CNI categorisation of the site did change in early 2024 due to the decommissioning of its former secondary control centre, which was then relocated to the current site. The proposals are as a direct consequence of the change in categorisation and need to maintain CNI compliance and to ensure business continuity.

#### Risk allocation

- 6.10 Cadent disagreed with our reductions on risk allocation, stating that the risk allocation that it has proposed is appropriate as it is based on project specific quantitative risk assessments (QRA) and that it has historically seen risk materialisation across its Capital Delivery portfolio at 21%.

### **Our Final Determinations**

- 6.11 Our FD is to approve allowances of £7.919m – an increase of £1.053m on our DDs – as explained below.

Asset refresh

- 6.12 Our FD is to maintain our DD position and to reject the funding request for the asset refresh programme.
- 6.13 Although Cadent makes an argument that it chose not to include the costs associated with the asset refresh in its RIIO-2 business plan due to its expectations around the outcome of the BPI, this is not relevant to the re-opener application. The physical security Re-opener only provides for additional allowances in cases “where the scope of work the licensee is required to carry out under the Physical Security Upgrade Programme has changed” (SpC 3.4.7). Cadent’s application does not point to a change in requirements, in fact stating that the funding request is to “maintain...mandated security standards” at existing CNI Category 3 sites. The proposed works are therefore out of scope of the Re-opener mechanism.

Control room

- 6.14 We accept Cadent’s explanation that the site has in fact changed CNI category and our FD is therefore to approve £1.210m additional allowances for the proposals. This allowance is £0.024m less than the £1.234m requested due to our adjustment in risk allocation (see below).

Risk allocation

- 6.15 Our FD position on application of 7.5% re-opener risk allowances is unchanged from our DD. We acknowledge Cadent’s disagreement with our approach to risk allowances, and understand that it has carried out a project specific QRA. However, we are satisfied that our application of 7.5% risk allowance is appropriate as it considers the situation across the full RIIO-2 delivery portfolio and interactions with the Totex Incentive Mechanism (TIM). This is explained in more detail in our [Decision on the assessment of three 2023 SPT’s MSIP full applications](#), published on 28 February 2024.
- 6.16 Our FD includes a reduction on risk allowance of £0.180m. This consists of:
- £0.024m reduction related to the control room funding to bring the risk allowance to 7.5% of direct activity allowances,
  - £0.156m reduction to correct an error in our DD’s where the 7.5% risk allowance rate was incorrectly applied (see Chapter 7).

## Wales and West Utilities Limited (WWU)

6.17 **Table 11** below provides a summary of our DD allowance proposals and our FD following consideration of the consultation responses.

**Table 11: Summary of our DDs and FDs for WWU (£m, 2018/19 Prices)**

	Forecast costs/allowances /adjustments	Document	Formula	Value (£m)
A	Company forecast RIIO-2 costs	Company submission		9.605
B	Company forecast RIIO-3 costs	Company submission		8.702
<b>C</b>	<b>Company forecast total costs</b>	<b>Company submission</b>	<b>Sum(A to B)</b>	<b>18.307</b>
D	Company forecast RIIO-3 costs	Draft Determinations		-8.702
E	No RIIO-2 DD adjustments	Draft Determinations		-
<b>F</b>	<b>DD total assessed efficient costs</b>	<b>Draft Determinations</b>	<b>Sum(C to E)</b>	<b>9.605</b>
G	DD RIIO-3 Allowances	Draft Determinations		-
<b>H</b>	<b>DD RIIO-2 Allowances</b>	<b>Draft Determinations</b>		<b>9.605</b>
<b>I</b>	<b>DD total assessed efficient costs</b>	<b>Draft Determinations</b>	<b>=F</b>	<b>9.605</b>
J	No FD adjustments	Final Determinations		-
<b>K</b>	<b>FD total assessed efficient costs</b>	<b>Final Determinations</b>	<b>Sum(I to J)</b>	<b>9.605</b>
L	FD RIIO-3 Allowances	Final Determinations		-
<b>M</b>	<b>FD RIIO-2 Allowances</b>	<b>Final Determinations</b>		<b>9.605</b>

### Summary of our Draft Determinations

6.18 WWU requested £9.605m additional RIIO-2 allowances for projects to address the security risks associated with its current Primary, and Disaster Recovery (DR) Gas Control Centres following reclassification to CNI Category 3. The total project cost is forecast at £18.307m. The RIIO-2 request is for the planning and design, and land acquisition for new primary and backup control centres. The overall projects are expected to be completed, and remaining £8.702m project expenditure incurred, in RIIO-3.

6.19 We proposed to assign PCDs to the RIIO-2 funding provision:

- Complete land acquisition, planning application, design and build of a new primary control centre at a new site,
- Complete planning stage, design and build of a new backup control centre at a new site.

### Consultation response

6.20 WWU agreed with our Draft Determinations.

6.21 Following consultation close WWU also informed us of potential delays to the RIIO-2 elements of the project, which would mean that the proposed DD allowances may not be fully spent.

**Our Final Determinations**

- 6.22 Our FD is to confirm our DD and to approve £9.605m additional RIIO-2 allowances.
- 6.23 Any non-delivery or under-delivery of the PCDs due to project delays will be dealt with in accordance with the provisions of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements).

## **7. Error correction – risk allowances**

- 7.1 In our DDs we proposed adjustment of risk allowances for NGET, SPT, NGT, and Cadent consistent with our policy of applying a flat rate of 7.5% risk allowance on most RIIIO-2 re-opener mechanisms. We explain our position on the application of 7.5% re-opener risk rate in our [Decision on the assessment of three 2023 SPT's MSIP full applications](#), published on 28 February 2024.
- 7.2 However, during our review of the consultation responses we identified an error in how the 7.5% rate was applied to total costs rather than the direct activity allowances. We have corrected this error in our FDs, the result of which is an average 1.6% reduction in allowances compared to our DDs across the four network companies (total reduction of £1.142m in 2018/19 prices).



## **8. Next steps**

- 8.1 We have published the directions giving effect to these FDs alongside this document. The directions come into effect immediately.
- 8.2 Please note that some details in the directions have been redacted for national security and commercial confidentiality reasons.