Decision

RIIO-ED2 Network Innovation Allowance (NIA): Additional Funding Decision

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In March 2025, we launched a consultation regarding our proposal to provide additional funding through the Networks Innovation Allowance (NIA) for the final two years of RIIO-ED2. In August, we published our decision to proceed with Option 2 from the consultation, which entailed undertaking a detailed assessment of whether each network needs additional NIA, and how much.

We asked Distribution Network Operators (DNOs) to provide information for this detailed assessment outlining their spend in the first three years of RIIO-ED2, benefits they have realised, and plans for the remainder of the price control. Based on this data, we made a decision on how much funding DNOs will receive on a company-by-company basis.

As licence changes will be needed to facilitate additional allowances, a statutory consultation will be launched in time for modifications to take place by 31 March 2026. This statutory consultation will run for 28 days and will take effect 56 days after our final decision.

References to the “Authority”, “Ofgem”, “we”, and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

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Executive summary

We published a consultation in March 2025 on a proposal to provide an additional £45.6 million in NIA funding for the final two years (2026/27 and 2027/28) of the RIIO-ED2 price control period.

The consultation sought views on whether additional funding was needed, how it should be allocated, and if there was evidence that innovation would not proceed in the absence of additional funding being given.

Responses to the initial consultation did not provide the evidence needed to support our minded-to position of increasing the total NIA funding awarded for all DNOs on a pro-rata basis. We subsequently concluded that a detailed assessment was needed to determine which DNOs require further funding for the final two years of RIIO-ED2, and how much.

DNOs provided requested data for the purposes of our assessment. We decided that, at a minimum, DNOs should have enough NIA (taking into account their remaining initial allocation) to continue spending in Years 4 and 5 of RIIO-ED2 at the same rate as they were projected to spend in Year 3. Where a DNO provided strong justification in their submission as to why they needed a different level of funding to this, we adjusted our award accordingly.

The following table outlines how much NIA we have allocated to each DNO against their funding request:[1]

DNO	RIIO-ED2 Years 4 and 5 additional NIA funding requested (£m)	RIIO-ED2 Years 4 and 5 additional NIA funding allocated (£m)
ENWL	5.6	3.7
NPg	6.3	6.3
NGED	11.95	0
UKPN	10	6.2
SPEN	7.4	4.5

[1] All figures regarding funding over the course of RIIO-ED2 are expressed in terms of 2020/21 prices.

SSEN	9	9
Total	50.25	29.7

As licence changes will be needed to facilitate additional allowances, a statutory consultation will be launched in time for modifications to take place by 31 March 2026. This statutory consultation will run for 28 days and changes will take effect 56 days after our final decision.

1. Additional NIA Funding Introduction

In this section, we explain the context of this decision and provide an overview of the decision-making process.

Context and related publications

1.1 Ofgem regulates the four monopoly energy network sectors through periodic price controls. The current regulatory framework, RIIO (Revenue = Incentives + Innovation + Outputs), is in its second iteration (RIIO-2). The price control period for Electricity Distribution (ED) companies is 1 April 2023 – 31 March 2028.

1.2 Ofgem retained NIA in RIIO-2. NIA is a set amount of money that network licensees receive as part of their RIIO budget to fund innovative projects that they are not financially incentivised to do otherwise. These projects aim to facilitate the energy transition or help vulnerable consumers.

1.3 In RIIO-ED2, DNOs were given a NIA allowance, with the flexibility to allocate the funds across the whole price control period, provided projects were registered by 1 April 2026. At the outset, funding was approved for the first three years (2023-2026), with a commitment to review the need for further funding for the final two years (2026/27 and 2027/28) of the price control.

1.4 We opened a consultation to review the need for further funding in March 2025 and published our decision in August. The consultation sought views on whether additional funding was needed, how it should be allocated, and if there was evidence that innovation would not proceed in the absence of additional funding being given.

1.5 We received various responses, with most supporting the allocation of additional NIA during the final two years of the price control. However, the responses did not provide the evidence needed to support our minded-to position of increasing the total amount of NIA funding awarded for all DNOs on a pro-rata basis.

1.6 Notably, the responses indicated that half of the DNOs had sufficient NIA funds to last them until the end of the current price control period, and it was unclear why additional funding was needed.

1.7 Considering the responses, we concluded that a detailed assessment was needed to determine which DNOs required further funding for the final two years of RIIO-ED2, and how much. Recognising that a burdensome and lengthy process could disrupt innovation and business planning, we designed the assessment to be proportionate and light touch. We asked DNOs to provide the following information:

Request for information

1. An overview of NIA spend so far, what it has gone towards, and what it has delivered.
2. An explanation of why additional NIA is needed.
3. A high-level overview of what this would go towards.

1.8 To aid our assessment, we requested further information from DNOs following their initial responses. We asked them to provide us with further detail on their spend (actual, committed, or forecast) for Years 1 to 3 of RIIO-ED2. We also asked DNOs to provide explanations as to why there were actual or projected increases in expenditure in RIIO-ED2 on a year-on-year basis.

1.9 This decision sets out how much NIA we have decided to allocate based on responses to our requests.

Related publications:

1. RIIO-ED2 Final Determinations Core Methodology Document
2. Consultation on additional Networks Innovation Allowance funding
3. RIIO-ED2 Network Innovation Allowance (NIA) funding for years 2026 to 27 and 2027 to 28

Next Steps

1.10 We will launch a statutory consultation on a proposed modification to Special Condition 5.2 of the Electricity Distribution Licence in time for modifications to take place by 31 March 2026. This statutory consultation will run for 28 days and changes will take effect 56 days after our final decision.

1.11 All DNOs will be allowed to continue registering NIA projects after 31 March 2026 even if they received no additional funding. The NIA RIIO-ED2 governance will be updated to reflect this in time for changes to take effect by 31 March 2026.

2. Additional NIA Funding Decision

Section summary

This section explains what considerations were taken into account when deciding to award additional NIA to each DNO for the last two years of RIIO-ED2.

Context

The decision-making process for additional RIIO-ED2 NIA funding had to balance multiple considerations. A timely decision was needed to allow DNOs to plan for their activities in the last two years of the price control without disrupting the innovation ecosystem. Furthermore, any additional funding needed to maintain accountability and ensure consumer funds are spent responsibly.

As a result, the award of additional NIA funding could not follow the longer timescales typically observed in the RIIO-ED2 or RIIO-3 price control setting process.

We also intended to ensure proportionality in our awards and that DNOs are accountable in their spending. While NIA is a use-it-or-lose-it allowance, our view is that funding must be transparent and based on actual need. As stated in our August decision, half of the DNOs had spent funding at a rate that indicated they would not use their full allowance prior to the end of RIIO-ED2. In addition, DNOs had not provided enough information as to why additional funding was needed. Our intention, as set out in the RIIO-3 Draft Determinations, is to increase oversight of NIA funding and ensure that innovation funding is providing value to consumers. It was paramount that this award, despite time restrictions, ensured consumer funds were spent responsibly.

These factors influenced our assessment both in terms of the options we considered when forming our judgement and in how we made our final decisions on awards for each network.

Options considered

2.1 We received responses to our requests from all DNOs. The information provided formed the basis of our decision as to how to allocate additional NIA funding for the last two years of RIIO-ED2. We made our decisions on a DNO-by-DNO basis.

2.2 In coming to our position on how to allocate additional funding, we sought to create a baseline allocation that each DNO would receive as a minimum. This figure was then adjusted based on DNOs' submissions.

2.3 We considered three options for the baseline number:

Option 1: RIIO-ED2 Average Spend

Under this option, a DNO's funding baseline for Years 4 and 5 would be calculated according to their average spend across Years 1 to 3 of RIIO-ED2.

Option 2: Pro-rata Allocation

Under this option, a DNO's baseline funding for Years 4 and 5 would be calculated according to their initial award in our RIIO-ED2 Final Determinations.

Option 3: Year Three Spend

Under this option, a DNO's baseline funding for Years 4 and 5 would be calculated according to their Year 3 spend in RIIO-ED2. This includes their actual, committed, and forecasted spend.

2.4 Option 1 allowed the assessment to award allocation based on need while taking into account remaining funds from DNOs' original allocations for the first three years of RIIO-ED2. We decided not to proceed with Option 1 as it did not reflect how spend increases during a price control. For instance, actual spend for many DNOs in Year 1 was low due to the utilisation of carry-over NIA, or due to DNOs focussing resources on other innovation funds such as the Network Innovation Competition (NIC) or the Strategic Innovation Fund (SIF). Proceeding with Option 1 carried the risk that DNOs would receive substantively less funding than needed, potentially limiting their ability to adequately fund innovation projects for the rest of the price control.

2.5 Most DNOs requested a pro-rata allocation as would have been permitted under Option 2. However, pro-rata funding did not consistently reflect the rate of spend DNOs achieved so far in the price control, and risked awarding DNOs substantively more NIA than they needed or could effectively utilise. As our aim is for NIA funding to meet actual need, we did not consider pro-rata funding to be a suitable option.

2.6 In addition, many DNOs were projected to have significant parts of their budget remaining for the final two years of RIIO-ED2, which Option 2 would not account for. Consequently, an allocation based on pro-rata funding risked DNOs substantially increasing spending in the final years of RIIO-ED2. This outcome could result in DNOs sacrificing the quality of innovative projects in the last two years of the price control in order to maximise additional NIA funding spend.

2.7 We selected Option 3 as it reflected DNOs' increasing levels of expenditure over a course of a price control and provided an opportunity to award allocation based on actual need. Option 3 also aligned with our general direction of increasing oversight of NIA funding, supporting the allocations that ensure DNOs maintain high quality in projects into the final years of RIIO-ED2. Like Option 1, it allowed the assessment to take into account the remaining funds from the initial allocation provided to DNOs for the first three years of RIIO-ED2.

2.8 The above approach set our starting point for NIA awards. DNOs had the opportunity to provide evidence that they could effectively further increase their spending and deliver high-quality NIA projects, which led us to award some DNOs additional NIA compared to their baseline.

2.9 As part of our assessment, DNOs submitted project information that explained what they spent NIA money on in RIIO-ED2 and what they planned to use additional funds on. Initial analysis of this data indicated that some projects were more suited for business-as-usual (BAU) funding. Timescales did not allow for greater scrutiny of these submissions as part of this decision-making process. However, in line with our general approach set out in our RIIO-3 Draft Determinations, we will be more closely monitoring NIA projects moving forwards to ensure they are genuinely innovative and delivering value for the consumer.

Final Assessment Process

2.10 In determining each DNO's award, we decided that, at a minimum, DNOs should have sufficient NIA to continue spending in Years 4 and 5 of RIIO-ED2 at the same rate as they are projected to spend in Year 3.

2.11 In providing this baseline we took into account how much of their initial allocation DNOs were projected to have remaining in Years 4 and 5.

2.12 Our baseline figure for DNOs was consequently the Year 3 rate over two years minus what was projected to remain of the DNO's initial allocation.

2.13 This decision reflected our aim for the baseline award to only represent the Year 3 rate in the final two years of RIIO-ED2. Excluding what remains from the initial allocation from this baseline award would have led to spending above the Year 3 rate.

2.14 Where a DNO provided a strong justification in their submission as to why they needed an award that was different to the Year 3 baseline rate, we adjusted the sum accordingly.

2.15 Strong justifications included, but were not limited to: increased innovation capacity in Years 4 and 5 compared to preceding years, proving successful delivery in RIIO-ED2 so far, and evidencing how additional NIA funding would be used.

2.16 The above factors also allowed us to consider that some DNOs might have reduced their spending in the beginning of the price control due to uncertainty over whether they would receive additional funding through this process, and ensure that they still had the opportunity to be awarded additional NIA where they supported this request with appropriate evidence.

3. Additional NIA Funding: DNO-by-DNO Decision and Rationale

This section will explain the rationale behind our additional RIIO-ED2 NIA funding decisions for each DNO.

SP Electricity North West (ENWL)

3.1 ENWL requested £5.6m in additional funding for the final two years of ED2. In our ED2 Final Determinations, ENWL were awarded £8.4m. They are projected to spend £3.3m in Year 3. This leaves them with £4.9m remaining for the final two years of the price control. Their Year 3 spend rate is £3.3m, meaning they would need an additional £1.7m to continue spending at a Year 3 rate in each of the final two years of the price control.

3.2 In our assessment of ENWL's submissions, we found that the DNO justified receiving their Year 3 rate based on what they have spent money on so far, what they plan to allocate funding toward, their explanation of the challenges they will face without an additional allowance, and their explanation of why their spending should ramp up during the price control.

3.3 They did not provide sufficient justification as to why their spend rate would treble in the final two years of ED2 when compared with their Year 3 rate.

3.4 We decided to give ENWL more than their Year 3 rate of spend, but did not award the full requested allocation that would have led to the aforementioned increase in spending.

3.5 Based on the above, we decided to award the DNO £3.7m, which allows the DNO a higher spend rate compared to Year 3 in Years 4 and 5. This sum accounts for remaining allocation from the first three years of RIIO-ED2.

Northern Powergrid (NPg)

3.6 NPg requested £6.3m in additional funding for the final two years of RIIO-ED2. In our RIIO-ED2 Final Determinations, NPg were awarded £7.5m. They are projected to spend £4m by the end of Year 3 of RIIO-ED2. This leaves them with £0.4m remaining for the final two years of the price control. Their Year 3 spend rate is £4m, meaning they would need an additional £7.6m to continue spending at a Year 3 rate for each of the final two years of the price control.

3.7 In our assessment of NPg's submissions we found that the DNO justified receiving additional money based on what they have spent their initial allocation on so far, what they plan to spend the money on, what detrimental effects they argue will occur without further funding, and their increased capacity for innovation. They also requested less award than what their Year 3 spend rate would have provided, when considering their current remaining NIA allocation.

3.8 Based on the above, we decided to award NPg's full request of £6.3m.

National Grid Electricity Distribution (NGED)

3.9 NGED requested £11.95m in additional funding for the final two years of RIIO-ED2. In our RIIO-ED2 Final Determinations, NGED were awarded £18m. They are projected to spend £2.6m by the end of Year 3 of RIIO-ED2. This leaves them with £14.57m for the final two years of the price control. Their Year 3 spend rate was £2.6m meaning they would not need any additional NIA funding to maintain that level of spending.

3.10 In our assessment of NGED's submissions, we found that the DNO put forward evidence for further funding based on how it spent its initial allocation so far, what it plans to spend future funding on, and how its capacity has increased for innovation. However, NGED is projected to have enough remaining from its initial RIIO-ED2 NIA allocation to nearly treble spending from Year 3 in each of the final years of the price control. The DNO will subsequently be able to substantively increase its spending in the rest of RIIO-ED2 past the Year 3 rate without needing additional funding.

3.11 Based on the above, we decided to not award additional NIA funding to the DNO as they are projected to have enough funding remaining from their initial allocation for RIIO-ED2 to spend significantly above their Year 3 rate in each of the final two years of the price control.

UK Power Networks (UKPN)

3.12 UKPN originally requested £10m in additional funding for the final two years of RIIO-ED2. In our RIIO-ED2 Final Determinations, UKPN were awarded £15m. They are projected to spend £4.28m by the end of Year 3 of RIIO-ED2. This leaves them with £5.57m remaining for the final two years of the price control. Their Year 3 spend rate is £4.28m, meaning they would need an additional £3m to continue spending at a Year 3 rate for each of the final two years of the price control.

3.13 In our assessment of UKPN's submissions, we found that the DNO justified receiving additional money based on what they have used NIA funding for so far, how they expect to use any further allocation, and their explanation as to why spending has and will increase during the price control.

3.14 After assessing DNOs' submissions, all DNOs were given an opportunity to respond to an initial assessment we made for their RIIO-ED2 allocation for Years 4 and 5. UKPN in response to our initial assessment submitted an amended allocation request of £6.2m, and provided further evidence as to their ability to deliver above their Year 3 spend. We decided that this new allocation request represented a justified increase from their Year 3 baseline rate when accounting for information provided in UKPNs' submissions.

3.15 Based on the above, we decided to award £6.2m to UKPN, as according to their revised allocation request.

SP Energy Networks (SPEN)

3.16 SPEN requested £7.4m in additional funding for the last two years of RIIO-ED2. In our RIIO-ED2 Final Determinations, SPEN were awarded £11.1m. They are projected to spend £3.56m in Year 3. This leaves them £5.47m for the final two years of the price control. Their Year 3 spend rate is £3.56m, meaning they would need an additional £1.7m in order to allow them to continue spending at a Year 3 rate in each of the final two years of ED2.

3.17 In our assessment of SPEN's submissions, we found that the DNO justified additional funding based on how they have spent money so far, how they plan to spend additional awards, what challenges they would face without further allocation, and how their innovation capacity has increased.

3.18 However, they did not provide sufficient justification as to why their spend rate would quadruple in the final two years of ED2 when compared with their Year 3 rate.

3.19 We decided to give SPEN more than their Year 3 rate of spend, but did not award the full requested allocation that would have led to the aforementioned increase in spending.

3.20 We awarded SPEN £4.5m, which allows the DNO a higher spend rate compared to Year 3 in Years 4 and 5. This sum accounts for remaining allocation from the first three years of RIIO-ED2.

Scottish & Southern Electricity Networks (SSEN)

3.21 SSEN requested £9m additional funding for the final two years of RIIO-ED2. In our RIIO-ED2 Final Determinations, SSEN were awarded £8.4m. They are projected to spend £5.5m in Year 3. This leaves them with an overspend for their initial allocation from the first three years of ED2.

3.22 In our assessment of SSEN's submissions, we found that the DNO justified additional funding based on how they have spent money so far, what they plan to use further allocation for, what challenges they will face without further funding, and their explanation of why their spending increased over the price control. They also requested less money than they would receive with their Year 3 spend rate.

3.23 Based on the above, we decided to award SSEN its full request of £9m.

Send us your feedback

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

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.