Decision

RIIO-3 Final Determinations – Wales & West Utilities (WWU)

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The next set of price controls for the Electricity Transmission (ET), Gas Distribution (GD) and Gas Transmission (GT) sectors will cover the five-year period from 1 April 2026 to 31 March 2031 (RIIO-3). In December 2024, the network companies in these sectors submitted their RIIO-3 Business Plans for this period to Ofgem. We assessed these plans and published our Draft Determinations for consultation on 1 July 2025. Following consideration of consultation responses, this document and others published alongside it set out our Final Determinations for the RIIO-3 price controls.

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1. Introduction

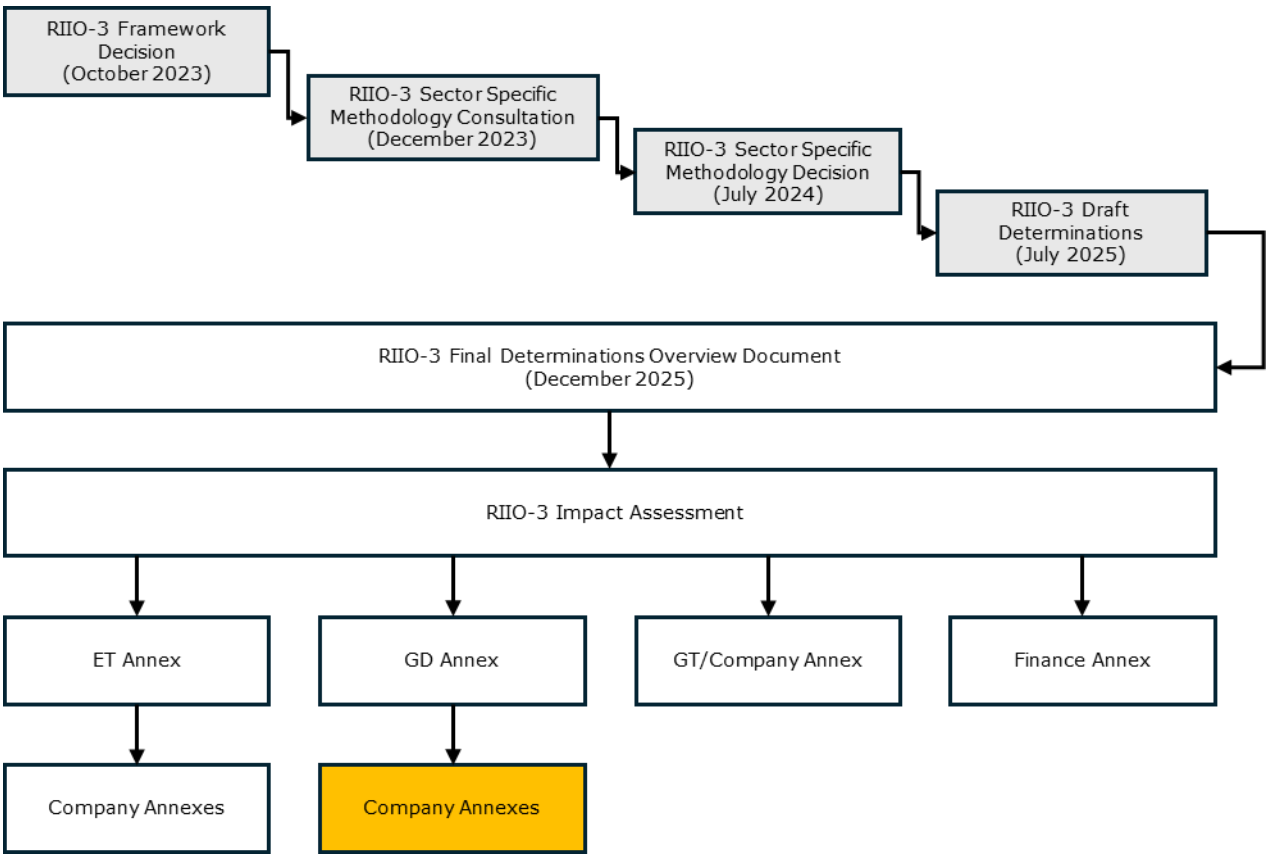
Purpose of this document

1.1 This document sets out our Final Determination positions for the price control areas that are specific to WWU covering the five-year period from 1 April 2026 to 31 March 2031 (RIIO-GD3). All figures in this document are in 2023/24 prices and post our ongoing efficiency adjustment, except where otherwise stated.

Navigating the RIIO-3 Final Determinations documents

1.2 The RIIO-3 Final Determinations are comprised of an Overview Document, a Finance Annex and sector annexes for ET, GD and GT. The sector annexes are underpinned by a RIIO-3 Impact Assessment, company annexes and, where relevant, technical annexes. This document is the WWU Annex. Figure 1 below maps all documents relevant to our suite of RIIO-3 Final Determinations, including the framework and methodology documents that have preceded it.

Figure 1: RIIO-3 Final Determinations map



1.3 Our Final Determinations have considered all previous feedback from network companies and other stakeholders, including the reports from the Independent Stakeholder Groups (ISGs) that were established to challenge each of the network companies on their stakeholder engagement and business plans, and the

feedback received in response to our RIIO-3 Draft Determinations. Further details on our approach to embedding the consumer voice is set out in the RIIO-3 Overview Document.

An overview of WWU's RIIO-GD3 price control

1.4 This section summarises the key aspects of WWU's RIIO-GD3 Final Determinations, setting out its cost allowances, outputs,[1] uncertainty mechanisms (UMs),[2] Business Plan Incentive (BPI) outcome and financing parameters.

Table 1: Allowed baseline totex (£m, 2023/24 prices)

Cost area	**Totex, £m**
Core baseline totex	1779.1
Network Innovation Allowance (NIA)	18.1
Pass-throughs, UIOLI and other ex ante allowance	738.0
Ex ante allowances	**2,535.2**

Table 2: Outputs package

Output name	**Output type**	**Sector(s)**	**Further detail**
Network Asset Risk Metric (NARM)	PCD, ODI-F and ODI-R	ET, GD, GT	Overview Document
Cyber Resilience	PCD, UIOLI and re-opener	ET, GD, GT	Overview Document
Environmental Action Plan (EAP) and Annual Environmental Report (AER)	ODI-R	ET, GD, GT	Overview Document
Strategic Innovation Fund (SIF)	Competitive Innovation Fund	ET, GD, GT	Overview Document
Network Innovation Allowance (NIA)	UIOLI	ET, GD, GT	Overview Document
Operational Transport Emissions Reduction	PCD	ET, GD, GT	Overview Document

[1] Outputs include Licence Obligations (LOs), Price Control Deliverables (PCDs), Use-It-Or-Lose-It (UIOLI) allowances and Output Delivery Incentives (ODIs). ODIs can be either financial (ODI-F) or reputational (ODI-R).
[2] UMs include volume drivers, re-openers, UIOLIs, pass-through, and indexation mechanisms.

Output name	Output type	Sector(s)	Further detail
Totex Incentive Mechanism (TIM)	ODI-F	ET, GD, GT	GD Annex
7- and 28-Day Repair Standards	ODI-F	GD	GD Annex
Tier 1 Mains Decommissioned	PCD	GD	GD Annex
Tier 1 Services	PCD	GD	GD Annex
Tier 1 Iron Stubs	PCD	GD	GD Annex
Emergency Response Time	LO and ODI-R	GD	GD Annex
Vulnerability and Carbon Monoxide Allowance (VCMA)	UIOLI	GD	GD Annex
Customer Satisfaction	ODI-F	GD	GD Annex
Disconnections Customer Satisfaction	ODI-R	GD	GD Annex
PSR Customer Satisfaction	ODI-R	GD	GD Annex
Complaints Metric	ODI-F	GD	GD Annex
PSR Customer Complaints	ODI-R	GD	GD Annex
Unplanned Interruptions	ODI-F	GD	GD Annex
Collaborative Streetworks	ODI-F	GD	GD Annex
Pipeline Replacements	PCD	WWU	This document

Table 3: UMs package

UM name	UM type	Sector(s)	Further detail
Business Rates (prescribed rates)	Pass-through	ET, GD, GT	Overview Document
Cost of debt indexation	Indexation	ET, GD, GT	Finance Annex
Cost of equity indexation	Indexation	ET, GD, GT	Finance Annex

UM name	UM type	Sector(s)	Further detail
Inflation Indexation of RAV and Allowed Return	Indexation	ET, GD, GT	Finance Annex
Ofgem licence fee costs	Pass-through	ET, GD, GT	Overview Document
Pension Scheme Established Deficit	Pass-through	ET, GD, GT	Finance Annex
Tax Review	Re-opener	ET, GD, GT	Finance Annex
Real Price Effects (RPEs)	Indexation	ET, GD, GT	Overview Document
Digitalisation	Re-opener	ET, GD, GT	Overview Document
Cyber Resilience	UIOLI and PCD	ET, GD, GT	Overview Document
NIS-R Cyber Resilience	Re-opener	ET, GD, GT	Overview Document
Co-ordinated Adjustment Mechanism (CAM)	Re-opener	ET, GD, GT	Overview Document
Decarbonisation and Environmental Policy (DEP)	Re-opener	ET, GD, GT	Overview Document
Small Decarbonisation Projects (SDP)	Re-opener	GD, GT	Overview Document
Decarbonisation Project Development (DPD)	UIOLI	GD, GT	Overview Document
Biomethane Connections	UIOLI	GD, GT	GD Annex and GT Annex
Heat Policy	Re-opener	GD	GD Annex
HSE Policy	Re-opener	GD	GD Annex
Complex Distribution Systems	Re-opener	GD	GD Annex
Tier 2A Mains and Services Replacement	Volume driver	GD	GD Annex
Diversions and Loss of Development Claims	Re-opener	GD	GD Annex

UM name	UM type	Sector(s)	Further detail
Safety Disconnections	Volume driver	GD	GD Annex
New Large Load Connections	Re-opener	GD	GD Annex
General Reinforcement	Re-opener	GD	GD Annex
Specified Streetworks Costs	Re-opener	GD	GD Annex
Pension deficit charge adjustment	Pass-through	GD	GD Annex
Third-party damage and water ingress	Pass-through	GD	GD Annex
Shrinkage	Pass-through	GD	GD Annex
NTS exit capacity	Pass-through	GD	GD Annex
Theft of gas (supplier responsible)	Pass-through	GD	GD Annex
Central Data Service Provider (CDSP) Costs	Pass-through	GD	GD Annex
Miscellaneous	Pass-through	GD	GD Annex
Supplier of Last Resort (SoLR)	Pass-through	GD	GD Annex

Table 4: BPI outcome

BPI Stage	WWU outcome, bps RoRE	Further detail
Stage A	Pass	Overview Document and this document
Stage B	-8.0	Overview Document, GD Annex and this document
Stage C	-3.8	Overview Document and this document

Table 5: Financing parameters

Area	WWU outcome	Further detail
Notional Gearing	60%	Finance Annex
Cost of equity	6.12%	Finance Annex
Cost of debt (semi-nominal)	4.66%	Finance Annex

Area	WWU outcome	Further detail
Weighted average cost of capital (semi-nominal)	5.24%	Finance Annex
Illustrative RoRE ranges (post RAMs)	3.50%-8.18%	Finance Annex

2. Outputs and incentives

2.1 This chapter sets out our decisions on outputs and incentives that are specific to WWU, including bespoke proposals submitted through its business plan.

Pipeline Replacements PCD

Purpose: To hold WWU to account for delivering replacement of two pipelines which are at the end of their asset lives.

Benefits: To protect consumers if any discrete capital investment is not delivered.

Final Determinations summary

Design	Final Determinations	Draft Determinations
PCD type	Evaluative.	Change – no mechanism proposed at DD.
Output to be delivered	Replacement of two pipelines: 1) Usk to Mitchell Troy (HS007); and 2) River Lougher, Swansea (HW009 and HW010).	Change – no mechanism proposed at DD.
Delivery date	31 March 2031.	Change – no mechanism proposed at DD.
Allowance	1) £23.2m for HS007; 2) £57.8m for HW009 & HW010.[3]	Change – no mechanism proposed at DD.
Reporting	Independently audited engineering report confirming the completion of each section of the project, as well as annual reporting through the Regulatory Reporting Packs (RRPs).	Change – no mechanism proposed at DD.

Final Determinations rationale and Draft Determinations responses

PCD type

2.2 We have decided that the replacement of these two pipelines will be funded through an evaluative PCD with an ex post evaluation to establish whether WWU has met the required output by the end of RIIO-GD3. We consider the use of an evaluative PCD is appropriate for these pipeline replacements as they are specific projects with clearly defined deliverables.

[3] These allowances are pre ongoing efficiency adjustment, which is applied across all totex. The final allowances will be included in the Pipeline Replacement PCD licence condition.

2.3 This is a change from our Draft Determinations position where we proposed to fund these two projects through baseline allowances. In WWU's response, it asserted that these two projects should be technically assessed, instead of being included in the totex regression model. We agree because we consider that, due to their materiality, these pipeline replacements should be funded through a PCD to hold WWU to account for the delivery of these projects. This ensures consistency with other similar projects such as Cadent's Grays Medium Pressure PCD. A PCD provides greater scrutiny than baseline funding because it links allowances to specific outputs and delivery requirements, whereas baseline allowances are set using cost regression models that estimate efficient costs based on sector-wide data.

Output to be delivered, delivery date and allowance

2.4 We have decided to provide £81m for the replacement of two intermediate pressure pipelines during RIIO-GD3:

a) £23.2m for Usk to Mitchell Troy (HS007); and

b) £57.8m for River Lougher, Swansea (HW009 and HW010).

2.5 WWU will relay the existing pipeline in intermediate pressure (IP) and will install a new high pressure (HP)/IP pressure reduction installation (PRI) at both Usk and Swiss Valley valve bridles.

2.6 WWU confirmed in its Engineering Justification Paper (EJP) that these two pipelines are at the end of their asset lives and no longer meet construction standards, therefore replacement is required to ensure that a safe and reliable network is maintained.

2.7 We agree with WWU's assessment of these pipelines. They supply approximately five thousand customers, and they are in a demonstrably poor condition. We consider it highly likely that they will be required for a long period of time. The scope of the project was well defined, and the cost breakdown was robust.

Reporting

2.8 We have decided to require an independently audited engineering report confirming the completion of each section of the project, as well as annual reporting through the RRPs. This will enable us to monitor the project's status, including timelines and costs. This is consistent with our approach to reporting for other bespoke PCDs.

Network Asset Risk Metric (NARM)

2.9 As in Draft Determinations, our decisions on network companies' Baseline Network Risk Outputs (BNRO) are based on their business plan proposals and reflect any adjustments to asset intervention volumes to align with baseline funding allowances.

2.10 As we set out at Draft Determinations, to ensure that BNRO, Baseline Allowances and ONRO and Outturn Allowances are comparable, we require network companies to recalculate their BNRO to reflect their Final Determinations volumes. More detail on this process can be found in the Chapter 4 in the Overview Document.

2.11 We continue to use the NARM funding categories set out in the NARM Handbook, which provides the scope of the NARM Funding Adjustment and Penalty Mechanism and its interaction with other mechanisms.

2.12 Table 6 below summarises our Final Determination of the BNRO, associated Baseline Allowances and the Unit Cost of Risk. The BNRO relate only to the A1 Funding Category.

Table 6: Baseline Network Risk Output, Baseline Allowance and Unit Cost of Risk per NARM Risk Sub-Category

Risk Sub-Category	**Risk Sub-Category**	**Baseline Network Risk Output, R£m**	**Baseline Allowance, £m**	**Unit Cost of Risk Benefit, UCR, £/R£**
Network Level	NET	2,493.0	266.7	0.1

2.13 Table 7 below summarises the results of our assessment of the BNRO per NARM asset category at Draft Determinations and Final Determinations. We acknowledge the discrepancy between the BNRO values published in the company annexes compared to the Overview Document at Draft Determinations. Our Draft Determination position on the BNRO values is correctly documented in the table below. Further detail about the NARM methodology can be found in Chapter 4 of the Overview Document.

Table 7: Baseline Network Risk Output (£m) per NARM asset category

Asset Category	**Draft Determinations**	**Change from DD to FD**	**Final Determinations**
LTS Pipelines	99.4	-95.1	4.3
Mains	2,096.5	-	2,096.5
Services	180.7	-	180.7
Risers	9.2	4.1	13.3
Offtake & PRS Filters	29.0	0.0	29.0
Offtake & PRS Slamshut/Regulators	104.5	15.1	119.6
Offtake & PRS Pre-heating	20.3	-	20.3
Offtake & PRS Odorisation & Metering	0.1	13.1	13.2
Governors	18.0	-2.0	16.0
Total	2,557.7	-64.8	2,493.0[4]

2.14 For the LTS pipelines category, at Draft Determinations we proposed an intervention under the A1 Funding Category. As this intervention is being captured under the Pipeline Replacements PCD, we recognise this should be captured under the A3 Funding Category as originally proposed by WWU.

2.15 For the Governor category, the decrease in BNRO between Draft Determinations and Final Determinations is due to a correction in the calculation of the BNRO. This was raised in an SQ by WWU, and we identified an error due to a data alignment issue. We have reflected this correction in our Final Determinations.

2.16 For all other asset categories, any changes in the BNRO since Draft Determinations are reflective of our final review of WWU's Engineering Justification Papers (EJPs). Our reasoning is set out in further detail in the Engineering assessment of WWU's Business Plan in Chapter 5 of this document.

2.17 All Capex NARM asset proposed replacement and refurbishment workload for WWU is allocated to Category A1 and is covered by the NARM Funding Adjustment and Penalty Mechanism.

2.18 For repex, Tier 1 and associated services are to be funded and incentivised through the Tier 1 Mains Decommissioned and the Tier 1 Services PCDs. Tier 2A

[4] May not sum due to rounding.

mains and associated services are funded by the Tier 2A Mains and Services Replacement Volume Driver. These are included in Category A2 (Funding Under a Separate Mechanism). Diversions are subject to the Diversions and Loss of Development Claims Re-opener, and reported under A3 (Ring-fenced Project/Activity). These workloads are not funded under NARM.

2.19 Finally, all repex replacement and refurbishment not tied to a PCD or a volume driver is allocated to Category A1 and covered by the NARM Funding Adjustment and Penalty Mechanism.

Repex Output Tables

2.20 Tables 8 - 17 below provide additional detail on the company-specific cost allowances and workload volumes for repex outputs. For more information on the policy decisions for these outputs please see Chapter 3 of the GD Annex.

Tier 1 Mains Decommissioned PCD

Table 8: Baseline Target Workloads of Tier 1 Mains Decommissioned

GDN	Volume, km
WWU	1,675

Table 9: Baseline activity volumes of Tier 1 Mains Decommissioned and Allowed Unit Costs of Tier 1 Mains Decommissioned

GDN	Diameter band of decommissioned pipe	Baseline Activity Volumes of Tier 1 Mains Decommissioned, km	Allowed Unit Cost, £/km
WWU	≤3"	23	[REDACTED]
WWU	4" - 5"	799	[REDACTED]
WWU	6" - 7"	563	[REDACTED]
WWU	8"	290	[REDACTED]

Table 10: Tier 1 Mains Baseline values by regulatory year (£m)

GDN	26/27	27/28	28/29	29/30	30/31	Total
WWU	76.5	73.9	73.1	73.0	70.1	366.6

Tier 1 Services PCD

Table 11: Baseline target workloads of Tier 1 Services repex

GDN	Volume, no. interventions[5]
WWU	122,984

Table 12: Baseline activity volumes of Tier 1 Services and allowed unit costs

GDN	Type of service intervention	Baseline activity volume of Tier 1 Services, no. interventions	Allowed Unit Cost, £/intervention
WWU	Relay	61,492	[REDACTED]
WWU	Test & Transfer	61,492	[REDACTED]

Table 13: Tier 1 Services Baseline values by regulatory year (£m)

GDN	26/27	27/28	28/29	29/30	30/31	Total
WWU	24.1	26.5	23.8	23.7	27.1	125.2

Tier 1 Iron Stubs PCD

Table 14: Target workload of Tier 1 Iron Stubs Decommissioned by regulatory year (number of Tier 1 Iron Stubs)

GDN	26/27	27/28	28/29	29/30	30/31	Total
WWU	305	305	305	305	307	1,527

Table 15: Allowed unit cost of Tier 1 Iron Stubs Decommissioned

GDN	Allowed unit cost, £/Tier 1 Iron Stub
WWU	[REDACTED]

Table 16: Forecast number of Tier 1 Iron Stubs Investigated but not Decommissioned by regulatory year (number of Tier 1 Iron Stubs)

GDN	26/27	27/28	28/29	29/30	30/31	Total
WWU	211	211	211	211	211	1,055

Table 17: Allowed unit cost of Tier 1 Iron Stubs Investigated but not Decommissioned

GDN	Allowed unit cost, £/Tier 1 Iron Stub
WWU	[REDACTED]

[5] The total no. of interventions may not sum to the total of the disaggregated components in the table below due to rounding

3. Business Plan Incentive (BPI)

3.1 This chapter sets out WWU's Final Determinations BPI results, including some of the key points raised by stakeholders, and our responses to these points. Where the results have changed from those published in the Draft Determinations, we have set out our reasoning for those changes. For information on the overall results for the BPI for all companies, see the Overview Document.

Table 18: Final Determinations BPI results

BPI Stage	Draft Determinations result	Final Determinations result	Further detail
A	Pass	Pass	This chapter for specific views on the Final Determinations result.
B	-6.6 bps	-8.0 bps	Chapter 5 of the GD Annex for the GDNs' results compared within the sector and an explanation of the methodology. This chapter for specific views on the Final Determinations result.
C	-3.8 bps	No change	This chapter for specific views on the Final Determinations result.
Total bps	-10.3 bps	-11.8 bps	
Total 5-year monetary equivalent, £m	-5.9	-6.9	

Stage A

3.2 Through the consultation we received no information to alter our position and therefore we have decided to implement our Draft Determinations position that WWU met all the minimum requirements, as set out in the Business Plan Guidance (BPG), and has passed Stage A of the BPI.

Stage B

3.3 The overall Final Determinations result for WWU is -8.0 bps, which corresponds to the weighted average of the outcomes from comparative (-8.7 bps) and bespoke (0.7 bps) assessment, rounded to one decimal point. The following provides

details on our Final Determinations result for each cost category including the rationale for change from our Draft Determinations results.

Comparatively assessed costs

3.4 Table 19 below sets out the comparatively assessed costs and their weightings within the overall Stage B BPI assessment score.

Table 19: Final Determination BPI scoring for comparatively assessed costs by network

Comparatively assessed cost category	Weighting	Efficiency benchmark	Efficiency Score	BPI reward/penalty, bps
Econometric Modelling	86%	0.98	1.07	-8.59
Ratio Benchmarking	5%	1.01	1.03	-0.08
WWU Total Comparative				-8.67

3.5 The changes to the BPI outcome in our Final Determinations come from the cost modelling updates and adjustments following our Draft Determinations consultation. As a result, the weightings between the different categories of assessment have changed, with fewer of WWU's costs being assessed through the regression in our Final Determinations, compared to our Draft Determinations. We also acknowledge there was an error within the BPI calculations in our Draft Determinations which resulted in the value of WWU's BPI penalty being understated. We have corrected this in our Final Determinations.

3.6 In its Draft Determinations response, WWU stated it was concerned with an approach that rewards cost efficiency irrespective of company performance in delivering commitments. In principle, we do not think that it is appropriate to account for qualitative factors (such as service quality and output delivery) within our quantitative assessment of efficient costs. We consider that we already have a range of targets and incentives to drive improvements in customer service, with Stage B of the BPI just one element of the overall RIIO-GD3 package.

3.7 WWU continues to rank 8th across all the networks in our Final Determinations, receiving the maximum Stage B penalty. In addition, we have decided to change the efficiency benchmark from 85th percentile to 81st percentile of the efficiency scores range, and this has an impact on the relative efficiency position of a GDN to the benchmark and frontier, as well as the final reward and penalty for both

econometric modelling and ratio benchmarking. More information on the cost models can be found in Chapter 5 of GD Annex.

Bespoke costs

3.8 Table 20 below sets out bespoke costs assessed along with our Final Determinations rationale and the Draft Determinations responses.

Table 20: Final Determinations BPI scoring for bespoke cost activities

Bespoke Cost	**Weighting**	**BPI reward/penalty, bps**
Electric Vehicles (EVs)	0.47%	0.09
Gas Safety (Installation and Use) Regulations 1998 (GSIUR) disconnections	0.23%	0.05
Cyber opex	[REDACTED]	[REDACTED]
Advanced Leakage Detection (ALD) (IT & Telecoms)	0.12%	0.02
Large Rechargeable Local Transmission System (LTS) Diversions	0.90%	0.18
TA - WWU.7 - HS007	1.07%	0.21
TA - WWU.9 - HW009	1.65%	0.33
TA - WWU.9 - HW010	1.02%	0.20
Cyber capex	[REDACTED]	[REDACTED]
ALD capex	0.20%	0.00
Physical Security Upgrade Programme (PSUP) capex	0.39%	0.08
EVs capex	-0.46%	-0.09

Bespoke Cost	Weighting	BPI reward/penalty, bps
Tier 1 Iron Stubs	0.96%	0.19

3.9 The changes to the bespoke costs BPI outcome in our Final Determinations come from the adjustments to the treatment of cost items as bespoke costs. In particular, WWU responded to our Draft Determinations consultation stating that its LTS pipeline major projects should be separately assessed in line with treatment of major Capex projects for other networks. We agree with this and have assessed its large rechargeable LTS diversions as bespoke costs in our Final Determinations. We have also moved other costs that are common across the GDNs into technical assessment. For more information on our technical assessment and bespoke assessment in our Final Determinations, see Chapter 5 of GD Annex and Chapter 5 of this document.

Stage C

3.10 This section sets out our Final Determinations result and rationale for the Clarity and Business Plan Commitments assessments for Stage C of the BPI. NGN responded to this question with some feedback on our Stage C proposals for WWU and some general feedback on the assessment process. Our response to NGN's general feedback is within the Final Determinations Overview Document.

3.11 Specific to WWU, NGN commented that our Stage C assessment overlooked WWU's historical service performance, which it argued has remained near the frontier despite cost pressures, unlike other networks whose performance has declined. While we acknowledge NGN's observation, this cannot replace the need for evidence to demonstrate that proposed targets are materially stretching and well-justified.

Clarity

Final Determination assessment result: -2.8 bps

3.12 We have decided to implement our Draft Determinations position that WWU scored -2.8 bps for the BPI Stage C Clarity assessment. This reflects that WWU was mostly rated as 'acceptable' but scored 'poor' against 'accessibility and conciseness' and 'coherence and justification'. The detailed rationale for this result is set out in our Draft Determinations WWU Annex.

3.13 In its response to our Draft Determinations, WWU raised concerns about the fairness of our Stage C Clarity scoring across GDNs, noting that assessing clarity

is subjective and risks inconsistent outcomes. It asserted that Cadent received similar feedback on readability of images, spelling errors, and text clarity, yet achieved an 'outstanding' score, while WWU was rated 'poor'. It also argued that our feedback lacked standard phrasing and consistent application of criteria, reinforcing its doubts about the rigour and objectivity of the methodology. WWU also stated that an independent AI-assisted review found its plan to be coherent, accessible, and ambitious. WWU said that this contradicts our assessment and supports its concerns about subjectivity.

3.14 WWU challenged its 'poor rating' for 'accessibility and conciseness', noting it adhered to page limits and that only a small subset of documents had accessibility issues. It argued that this should merit an 'acceptable' or 'outstanding' rating. Similarly, WWU disputed its score for 'coherence and justification'. It argued that this score did not fairly reflect its overall submission quality, which demonstrated strong stakeholder engagement and structured evidence. It asserted that our own Draft Determinations acknowledged that its plans were well-tested and scrutinised, which it says contradicts our 'poor' rating.

3.15 It also claimed that Cadent was allowed to resubmit materials to improve its score - a process which it says was not offered to WWU - raising concerns about procedural fairness.

3.16 We disagree with WWU's assertions, and our position remains unchanged. All GDNs were assessed independently, using a transparent, published methodology applied consistently across all submissions. The BPI Stage C criteria were defined in the RIIO-3 Sector Specific Methodology Decision (SSMD) and the BPG and applied uniformly across all GDNs. Each criterion - 'layout and structure', 'accessibility and conciseness', 'coherence and justification', 'relevance of information', and 'clarity of information that supports the demonstration of value to consumers - was evaluated against defined benchmarks, with scoring calibrated across network companies to ensure comparability and fairness. Differences in feedback and scores reflect differences in the quality of business plans. While we acknowledge external perspectives, such as WWU's AI-assisted review, our assessment is a rigorous, criteria-based approach designed to ensure consistency.

3.17 We continue to consider that WWU's business plan is 'poor' for 'accessibility and conciseness' and 'coherence and justification'. While WWU adhered to page limits, our ratings reflect not only length but also clarity and effectiveness of presentation. WWU did not consistently use standard terminology across its business plan, Business Plan Data Template commentary and supplementary

question responses. The distinction between targets, ambitions and priorities was also unclear. Accessibility issues, such as low-resolution graphics and small-text diagrams, affected key annexes and visual elements, hindering comprehension. There was also insufficient justification for digitalisation and cyber investments, and data granularity did not consistently align with annex commentary, making reconciliation difficult. By contrast, Cadent's plan was clear with minor presentation flaws.

3.18 We found no evidence to support WWU's claim that Cadent resubmitted files to improve its score. Network companies were only asked to resubmit files where the submissions were corrupted, blank or inaccessible, and all network companies were asked to clarify elements of their business plan submissions through supplementary questions. We consider these processes were fair and consistent for all network companies.

Business Plan Commitments

Final Determinations overall assessment result: -1.0 bps

Outcome: Infrastructure fit for a low-cost energy transition

Final Determinations assessment result: 0 bps

3.19 We received no information through the consultation to alter our position. We have therefore decided to implement our Draft Determinations position. WWU's score of 0 bps for this outcome reflects that each of the assessment criteria was rated as 'acceptable'. The rationale for this result is set out in the WWU Annex of the Draft Determinations.

Outcome: Secure and resilient supplies

Final Determinations assessment result: 0 bps

3.20 We received no information through the consultation to alter our position. We have decided to implement our Draft Determinations position. WWU's score of 0 bps for this outcome reflects that each of the assessment criteria was rated as 'acceptable'. The rationale for this result is set out in the WWU Annex of our Draft Determinations.

Outcome: High quality of service from regulated firms

Final Determinations assessment result: -1.0 bps

3.21 We have confirmed our Draft Determinations position that WWU scored -1.0 bps for this outcome in our BPI Stage C Commitments assessment. This reflects that it was rated 'poor' for 'stretching performance', and 'acceptable' for all other

criteria. The rationale for this result is set out in the WWU Annex of our Draft Determinations.

3.22 WWU expressed disappointment at receiving a 'poor' rating for 'stretching performance'. It argued that ambition must be balanced with deliverability, highlighting its full delivery of RIIO-GD2 outputs. It emphasised that its commitments were shaped through stakeholder engagement and signed off by its ISG, ensuring they were both ambitious and achievable. WWU also said that other GDNs had admitted that some of their proposed targets were unrealistic, arguing that rewarding impractical ambition undermines fairness and risks higher costs for consumers. It proposed that performance should be assessed at the end of RIIO-GD3, rather than through the BPI.

3.23 We also received a response from Care & Repair Cymru, which expressed support for WWU's vulnerability work, particularly the Older Not Colder project, which it delivers across Wales. It provided detailed case studies demonstrating the scale, reach, and impact of WWU's activities funded by the Vulnerability and Carbon Monoxide Allowance (VCMA). Care & Repair Cymru disagreed with our comment that WWU's non-carbon monoxide (CO) commitments lacked sufficient detail or comparability to RIIO-GD2. It also defended WWU's request for the highest VCMA funding relative to customer base, citing Wales's rurality, higher levels of deprivation, and a rapidly ageing population as factors that increase vulnerability and service delivery costs.

3.24 We recognise WWU's emphasis on deliverability and its strong RIIO-GD2 track record. The BPI Stage C Commitments assessment is designed to reward business plans that stretch beyond current performance, supported by clear delivery pathways. While stakeholder engagement and ISG endorsements are valuable, they do not in themselves evidence that commitments go significantly beyond expectations. The examples WWU cites from other GDNs highlight the importance of balancing ambition with credibility, not avoiding stretch altogether, and the need to provide a strong rationale for proposed targets. We assessed this balance of ambition with credibility during our assessment for the deliverability of commitments. Finally, the BPI is a forward-looking mechanism intended to incentivise ambition at the planning stage, whereas annual reporting and close out mechanisms exist to assess past delivery. We therefore consider the rating appropriate and consistent with the published methodology.

3.25 We appreciate the detailed feedback from Care & Repair Cymru and recognise the valuable work being delivered through WWU's VCMA-funded initiatives. The case studies provided clearly demonstrate the positive impact of WWU's vulnerability

programme across Wales. Our assessment of WWU's non-CO commitments focused on the clarity and justification of proposals within the business plan itself. Proposed targets and funding requests should build on RIIO-GD2 performance and must be supported by clear, consistent justifications, delivery plans and measurable outcomes in the submission. We continue to consider WWU's Business Plan did not provide sufficient justification for its targets and funding requests for this outcome.

4. Managing uncertainty

4.1 This chapter sets out our decisions on bespoke UM proposals submitted by WWU through its business plan. For our Final Determinations, we have decided not to fund any bespoke UM proposals for WWU for the reasons set out below.

4.2 NGN agreed with each of our proposed rejections for WWU within our Draft Determinations proposals, acknowledging our proposal on a £2m cap for Decarbonisation Project Delivery (DPD) UIOLI[6] projects, which excluded the projects. However, following more detailed resubmissions from WWU, we broadly consider that many of the below projects can be divided into eligible DPD UIOLI projects, provided they are below the updated DPD UIOLI project maximum of £2.5m.

4.3 Otherwise, only WWU responded to the questions within this section in our Draft Determinations, and we will address its responses below.

Environmental Action Plan (EAP): Prepare the business for a net zero future

Final Determinations rationale and Draft Determination responses

4.4 We have decided to allow £6.5m (before the application of the catch-up and ongoing efficiency challenges) through baseline allowances for the below-listed components of WWU's EAP proposal 'Prepare the business for a net zero future':

- robust engineering process, procedures and contingency planning in preparation for future changes (£1.3m);
- transformation capabilities and a project management office (£1m);
- transformation capabilities internal and external comms (£0.8m);
- preparing asset management systems and data for future changes (£0.7m);
- transformation capabilities and network planning (£0.7m);
- developing company specific regulatory and finance approaches (£0.5m);
- safety under a range of future gas industry scenarios (£0.5m);
- asset management and network infrastructure (£0.4m);
- workforce readiness and training (£0.4m); and
- supply chains and partnerships (£0.2m).

[6] Previously named the Net Zero and Re-opener Development UIOLI.

4.5 The remaining £1.6m for 'Settlement and data' will be eligible for funding via the DPD UIOLI to reflect that the scope and requirements remain less defined in this area.

4.6 This is a change from our Draft Determinations position, where we considered the £8.09m proposal was too material to qualify under the DPD UIOLI mechanism, and instead proposed that it could be submitted for funding through the Small Decarbonisation Projects (SDP) Re-opener.[7]

4.7 Following WWU's detailed resubmission, which provided a clear breakdown of the eleven distinct workstreams, we have revised our position. We are approving £6.5m[8] of this investment through baseline allowances because these elements have cost certainty. This funding will enable WWU to deliver preparatory work aligned with national net zero objectives and maintain resilience during the transition.

4.8 We consider the remaining £1.6m for 'Settlement and Data' should not be funded until there is greater policy certainty, particularly regarding hydrogen blending. This depends on the completion of HSE's ongoing safety case review and subsequent government decisions. Once the safety case is complete and the government's policy direction is made clear, WWU can use its increased DPD UIOLI allowance or the SDP Re-opener to fund this work, if appropriate.

EAP: Facilitate green gases

Final Determinations rationale and Draft Determination responses

4.9 We have decided that WWU can fund the workstreams contained within its 'Facilitate green gases EAP' proposal through the DPD UIOLI, provided they remain under the maximum project cap and otherwise meet the eligibility criteria in the DPD Governance Document.

4.10 This is a change from our Draft Determinations position, where we considered a £14.5m EAP investment was too material to qualify under the DPD UIOLI mechanism. Instead, we proposed that it could be submitted for SDP Re-opener funding. WWU's Business Plan proposed using DPD UIOLI funding to progress hydrogen blending implementation and green gas capacity projects, building on RIIO-GD2 initiatives, while excluding major asset mitigation investments that may be required for future hydrogen or repurposing.

[7] Previously named the Net Zero Pre-Construction and Small Projects Re-opener.
[8] Before the application of the catch-up and ongoing efficiency challenges.

4.11 In WWU's Draft Determinations response, it reduced the size of its proposal to £2.9m. This reflected that it had removed work related to biomethane capacity - such as additional rollout of Smart Pressure Control - as it expected this to fall under the Biomethane Connections UIOLI. WWU asserted that if the scope of the Biomethane Connections UIOLI is not amended, it would seek additional DPD UIOLI funding. We can confirm that these proposals will not fall under the Biomethane Connections UIOLI. However, WWU can use its increased DPD UIOLI to fund parts of these proposals. Further details on the Biomethane Connections UIOLI can be found in Chapter 4 of the GD Annex.

4.12 Additionally, WWU explained that each workstream component of its Facilitate green gases proposal was below the project maximum of £2m proposed in our Draft Determinations. We agree that each of these proposals is distinct and below the updated DPD UIOLI project maximum of £2.5m. Therefore, we consider these separate investments appropriate for the DPD UIOLI, once WWU has more certainty on costs and policy direction. For hydrogen blending specifically, this certainty will be provided once the safety case is complete and government's policy direction is made clear.

EAP: Move towards an ultra-low emission fleet

Final Determinations rationale and Draft Determination responses

4.13 We do not consider that DPD UIOLI funding should be used for WWU's £6.8m 'Move towards an ultra-low emission fleet' EAP proposal, which looked to advance initiatives such as its hydrogen fuel cell van trial and participation in the Department for Transport's HyHaul project. For our rationale on rejecting the associated £3.9m Network Innovation Allowance (NIA) funding, please see paragraph 6.8.

4.14 WWU responded to our Draft Determinations asserting that its funding request represents a programme of distinct projects, each below the DPD UIOLI project maximum. It argued that this proposal addresses uncertainty around decarbonising larger vans and heavy goods vehicles, where battery electric technology may be insufficient, and aligns with UK government guidance highlighting hydrogen's role in heavy transport applications. WWU stated that its stakeholders support its proactive efforts to reduce emissions. It added that given the evolving policy and technology landscape, the DPD UIOLI allowance provides the necessary flexibility to deliver efficient, future-ready solutions tailored to WWU's operational needs and geographic context.

4.15 We continue to consider this proposal unsuitable for DPD UIOLI funding because:

- the benefits to natural gas consumers of this project remain unclear in comparison to funding the rollout of other more cost-efficient and readily available zero emission vehicles (ZEVs); and
- it is unclear why natural gas consumers should fund trials to develop and demonstrate the viability of hydrogen vehicles.

4.16 This proposal's ineligibility for DPD UIOLI funding will be reflected in the updated DPD Governance Document.

4.17 We do, however, continue to encourage the GDNs to proceed with replacing vehicles with ZEVs to convert their fleet.

EAP: Improve energy system planning

Final Determinations rationale and Draft Determination responses

4.18 We have decided to provide baseline funding for WWU's 'Improve energy system planning' EAP proposal, which it requested DPD UIOLI and NIA funding for through its business plan. This includes resources for system planning and data analysis to support the National Energy System Operator (NESO) and local authorities, engagement with external stakeholders, and the delivery of projects identified as priorities in regional or local area energy plans.

4.19 This is a change from our Draft Determinations position, where we stated that this investment would be too material for the DPD UIOLI. Following WWU's detailed resubmission, we have decided to allow baseline allowance funding in full for both the DPD UIOLI and NIA portions of this proposal. We consider baseline allowance funding more appropriate because these activities are necessary for WWU to be able to meet anticipated obligations under its RESP Licence Obligation and to support NESO-led system planning, rather than being discretionary or uncertain in scope. Further details on the approval of the NIA portion of this proposal can be found in paragraph 6.8.

Repex Uncertainty Mechanism Tables

4.20 Table 21 below provides additional detail on the company-specific cost allowances and workload volumes for the Tier 2A Mains and Services Replacement Volume Driver. For more information on the policy decisions regarding this UM, please see Chapter 4 of the GD Annex.

Tier 2A Mains and Services Replacement Volume Driver

Table 21: Tier 2A unit costs by diameter band - WWU (£ per km mains decommissioned including associated service interventions)

Diameter band, inches	**26/27**	**27/28**	**28/29**	**29/30**	**30/31**
>8 to <10	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
≥10 to ≤12	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
>12 to <18	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

5. Cost of service

Introduction

5.1 This chapter sets out our decision on efficient totex allowances for WWU in RIIO-GD3. This chapter should be read alongside other parts of our Final Determinations that set out our overall approach to RIIO-GD3. In particular, it should be read alongside Chapter 5 of the GD Annex, which provides more detail on our proposed cost assessment approach, and modelling methodology and process.

Efficient totex allowances

5.2 We have decided to set WWU efficient totex of £1.8bn in RIIO-GD3 at Final Determination. This is an increase of £277.4m compared to our Draft Determinations position, driven by the changes to our assessment of investment need and modelling approach (see GD Annex Chapter 5 for further details).

5.3 Our efficient totex allowances comprise forecast controllable costs on a net basis[9] and are inclusive of our proposed ongoing efficiency (OE) challenge, unless otherwise stated. Figures presented in this chapter do not include real price effects (RPEs), to allow direct comparison with other GDNs.

5.4 Table 22 below sets out WWU's submitted and efficient totex allowances for RIIO-GD3. Submitted totex includes resubmissions (see the Resubmissions section of Chapter 5 of the GD Annex for further information).

Table 22: WWU RIIO-GD3 submitted totex versus efficient totex (£m, 2023/24 prices)

GDN	Submitted totex, £m	FD efficient totex, £m	DD proposed totex, £m	Difference FD vs submitted, £m	Difference FD vs submitted, %
WWU	2210.9	1779.1	1501.7	-431.8	-20%

Summary of assessment

5.5 We have decided to exclude various costs from the econometric benchmarking and assess through non-regression or technical assessment routes, where we consider that cost activities are not well suited to regression assessment. Table

[9] Net costs are gross costs minus any 'contributions' the GDNs receive from third parties towards the work undertaken. Some activities may have chargeable elements, resulting in full or partial payment by third parties, with the remainder chargeable to customers through the RIIO price control framework.

23 below shows the breakdown of submitted costs by each assessment route at Final Determinations.

Table 23: Company submitted totex by cost assessment approach (£m, 2023/24 prices)

GDN	Submitted totex, £m	Regression benchmarking, £m	Non-regression assessment, £m	Technically assessed, £m
WWU	2,281.0	1,885.7	124.0	271.2

Pre-modelling, normalisations and adjustments

Background

5.6 To ensure that our cost benchmarking is carried out on a comparable basis between GDNs, submitted data is adjusted to correct for inconsistencies in reporting and the influence of external factors.

5.7 Our approach and rationale for pre-modelling adjustments are set out in detail in the pre-modelling, normalisations and adjustments Chapter 5 of the GD Annex.

Regression

Cost drivers

Background

5.8 Our decisions regarding adjustments to cost drivers are set out in Chapter 5 of the GD Annex. See the Appendix for further details of our engineering review and recommendations.

Final Determinations decision and rationale

5.9 Table 24 sets out a summary of the adjustments we have made to each GDN's cost drivers for RIIO-GD3, following the outcomes of our assessment process and application of pre-modelling adjustments.

Table 24: Final adjustments to cost drivers for WWU's network in RIIO-GD3

CSV driver	Submitted	FD modelled	DD modelled	FD Difference vs submitted	FD Difference vs submitted, %
Repex, £m	587	575	602	-12	-2%
Reinforcement, £m	26	26	26	0	0%
Connections, £m	24	24	23	0	0%
Emergency CSV, No.	4,320,201	4,320,201	4,320,201	0	0%
External condition reports, No.	55,425	55,425	55,425	0	0%
Maintenance MEAV, No.	21,107	21,107	16,948	0	0%
MEAV, £m	71,330	71,330	57,153	0	0%
WWU Total, #[10]	7,669	7,605	7,136	-64	-1%

Non-regression

Background

5.10 Our approach to assessing costs for non-regression activities for RIIO-GD3 at Final Determinations is set out in the Non-Regression Benchmarking section of Chapter 5 in the GD Annex.

Final Determinations decision and rationale

5.11 Table 25 presents a summary of submitted and allowed modelled costs for each non-regression category for WWU in RIIO-GD3. The reductions set out below result from the removal of workloads or costs deemed unjustified following

[10] This is the weighted average of the CSV components. See the CSV weights section within Chapter 5 of the GD annex for further details on weightings for each component.

engineering review and application of our non-regression cost assessment approaches. The description of our assessment approach for each cost area, along with the rationale for the costs allowed, is presented within the corresponding cost activity segments in the non-regression section of Chapter 5 of the GD annex.

5.12 The modelled costs presented in Table 25 below do not include our catch-up and ongoing efficiency challenges.

Table 25: Submitted and allowed modelled costs for non-regression cost activities for WWU in RIIO-GD3 (£m, 2023/24)

Non-regression activity	Submitted, £m	FD allowed modelled costs, £m	DD allowed modelled costs, £m	FD allowed modelled vs submitted, £m	FD allowed modelled vs submitted, %
Growth Governors	0.0	0.0	0.0	0.0	0%
Land remediation	6.9	6.9	6.9	0.0	0%
MOBs	38.4	32.3	32.2	-6.0*	-16%
Diversions	23.4	21.1	21.1	-2.3	-10%
Smart Metering	0.0	0.0	0.0	0.0	0%
Streetworks	55.4	48.1	39.6	-7.3	-13%
SIU	0.2	0.2	0.0	0.0	0%

**Sum of rows may not total due to rounding*

Technically assessed costs

Background

5.13 Our approach to assessing costs for technically assessed activities for RIIO-GD3 at Final Determinations is set out in the Technically assessed costs section of Chapter 5 in the GD Annex. Table 26 below summarises the costs we have allowed for technically assessed activities for WWU in RIIO-GD3.

Technically assessed costs Final Determinations decisions and rationale

5.14 The modelled costs presented in the Table 26 include any adjustments resulting from the technical assessment process, but do not include our ongoing efficiency challenge.

Table 26: Submitted and allowed modelled costs for technically assessed cost activities for WWU in RIIO-GD3 (£m, 2023/24)

Technically assessed activity	**Submitted, £m**	**FD allowed costs, £m**	**DD allowed costs, £m**	**FD allowed vs submitted, £m**	**FD allowed vs submitted, %**
Cyber	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
ALD	7.1	7.1	7.1	0.0	0%
DPLA	0.0	0.0	0.0	0.0	0%
Large rechargeable LTS diversions	19.5	19.5	0.0	0.0	0%
Tier 1 Iron stubs	30.4	20.7	0.0	-9.7	-32%
PSUP capex	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Major projects	0.0	0.0	0.0	0.0	0%
Electric vehicles	11.1	0.3	0.0	-10.8	-97%
Robotic intervention	0.0	0.0	0.0	0.0	0%
GSIUR disconnections	12.1	4.9	0.0	-7.1*	-59%
Intermediate pressure and medium pressure steel services	0.0	0.0	0.0	0.0	0%

**Sum of rows may not total due to rounding*

Bespoke outputs Final Determinations summary

Design	**Final Determinations**	**Draft Determinations**
Bespoke outputs	Fund three LTS pipeline replacements, all of which are included in the Pipeline Replacement PCD	Excluded one of these projects, while assessing the other two within the regression

Bespoke outputs Final Determinations rationale and Draft Determinations responses

5.15 We have decided to fund investment in three LTS pipeline replacements in RIIO-GD3, all of which are included in the Pipeline Replacement PCD (see Chapter 2 of this document for further information). At Draft Determinations we excluded one of these projects, while assessing the other two within the regression. WWU provided evidence in its consultation response to clearly demonstrate that all three projects met the criteria for being excluded from the regression and assessed as bespoke outputs, based on high materiality, and comparative uniqueness to their network. Allowances for these projects are presented in Table 27 below.

5.16 Our engineering review found the needs case for each of these projects to be well justified. We also considered the proposed costs to be well evidenced. We have therefore allowed the proposed costs in full at Final Determinations.

5.17 The modelled costs presented in Table 27 below include any adjustments resulting from the technical assessment process, but do not include our ongoing efficiency challenge.

Table 27: Submitted and allowed modelled costs for bespoke output cost activities for WWU in RIIO-GD3 (£m, 2023/24)

Bespoke Outputs	Submitted, £m	FD allowed costs, £m	DD allowed costs, £m	FD allowed vs submitted, £m	FD allowed vs submitted, %
WWU.7 - HS007	23.2	23.2	0.0	0.0	0%
WWU.9 - HW009	35.7	35.7	0.0	0.0	0%
WWU.9 - HW010	22.1	22.1	0.0	0.0	0%

Final cost exclusions from totex

Background

5.18 In this section we provide further details of the cost activities that WWU proposed for technical assessment or as bespoke outputs (ie cost to be excluded from the totex regression) in its business plan and in its Draft Determinations response, and the decision we have reached on each of these cost activities for Final Determinations.

5.19 In its business plan, WWU made the following proposals for cost exclusion. At Draft Determinations, we evaluated each of these claims for exclusion from comparative regression benchmarking and proposed not to exclude them (ie

continue to assess within the regression) as they did not meet the criteria set out in our SSMD for separate assessment:

(1) ZEV Infrastructure;

(2) Disconnections;

(3) Mains in private property;

(4) Non-PSUP physical security;

(5) Information & technology and telecoms;

(6) Built over mains; and

(7) Land and buildings.

5.20 In WWU's Draft Determinations response, WWU expressed that it agreed with most of the cost exclusions made by us at Draft Determinations. However, they proposed the following costs to be excluded from comparative benchmarking:

(8) WWU LTS pipelines;

(9) NIS compliance requirements;

(10) VCMA; and

(11) PSUP Opex.

Final Determinations summary

Design	Final Determinations	Draft Determinations
Excluded	WWU LTS pipelines, GSIUR disconnections	Not excluded
Not excluded	All other proposed exclusions (numbers 1, 3-6, 8-10)	Same as FD

Final Determinations rationale and Draft Determinations responses

5.21 We have decided to exclude the costs for the WWU LTS Pipelines from the regression for Final Determinations (see Chapter 2 of this document for further information on the bespoke PCD). Disconnections which relate to GSIUR 1998 have been excluded and are included within an uncertainty mechanism, all other disconnection categories have been kept within the totex regression. More details on the rationale can be found in Chapter 5 of the GD annex.

5.22 We reviewed each of the other proposed cost exclusions and concluded that the costs outlined below should remain within comparative regression benchmarking, as they have not met the criteria set out in our SSMD for separate assessment.

5.23 The following activities have not been excluded because we consider them to be business as usual costs, not unique to RIIO-GD3 and/or common across GDNs, and therefore suitable for the regression.

- ZEV Infrastructure;[11]
- NIS compliance requirements;
- VCMA; and
- PSUP Opex.

5.24 Where NIS compliance requirements are related to cyber, we have excluded them, but where they are related to IT&T costs, we have included them in the regression (see IT&T Section in the Chapter 5 of the GD Annex for further information on our cost treatment for Final Determinations).

Engineering assessment of WWU's Business Plan

EJP Review overview

5.25 Following our final review of WWU's EJPs, we present our final determination, which forms a critical component in evaluating the justification for proposed workloads under the RIIO-3 price control period.

5.26 For WWU EJP recommendations please see Appendix 1. Table 28 in Appendix 1 lists all justified EJPs. Table 29 includes EJPs that were partially justified or unjustified.

EJP quality and data provision

5.27 Overall, our technical analysis found that WWU EJP submissions had well justified needs cases.

5.28 WWU LTS major projects and non-mandatory mains replacement programme have been well justified and are required due to safety and security of supply concerns.

5.29 Volume reductions have been recommended when there has been a lack of data to support proposed volumes or the asset health data provided would not support the need for investment.

[11] We have decided to fund charging infrastructure via baseline funding or through agile in-period allowances, such as the Decarbonisation Project Development (DPD) UIOLI, as suggested by WWU in its Draft Determination response (see Chapter 4 of our Overview Document for more information).

Assessment

5.30 Volume reductions have been recommended when there has been a lack of data to support proposed volumes or the asset health data provided would not support the need for investment.

5.31 We reviewed ten WWU EJPs totalling approximately £1.0bn, planned for the RIIO-3 price control period. Following our technical review, we considered eight EJPs to be well-justified and we recommended those for approval without any adjustment to volumes.

5.32 Two EJPs are partially justified with adjustments made to either costs, volumes or both, where either the needs case, proposed optioneering and/or scope were insufficient to justify the full request.

5.33 Additional reporting will be required for Complex Distribution Systems to provide progression updates on high-risk sites.

6. Innovation

Background

6.1 The SSMD, BPG, Draft Determinations and Overview Document identify the criteria and process that we have used to assess NIA funding requests. The Overview Document also details our decisions for future of gas related innovation, NIA oversight, the SIF, increasing third party involvement and innovation deployment.

6.2 We set below our Final Determinations on WWU's RIIO-3 NIA funding.

Summary of Final Determinations

Design	Final Determinations	Draft Determinations
NIA funding	£18.1m allowed	£12.2m allowed

Final Determinations rationale and Draft Determinations responses

6.3 We have decided to allow WWU £18.05m of NIA funding. In its Business Plan, WWU requested £37.9m of funding.

6.4 In our Draft Determinations, we proposed allowing WWU £12.19m of NIA funding.[12]

6.5 We proposed deducting £24.45m due to workstreams around future of gas, energy system planning and regulatory and financial frameworks that we determined didn't warrant NIA funding.

6.6 Additionally, we proposed reducing WWU's funding by 9% to reflect shortcomings in its Business Plan submission against the criteria set out in the BPG.

6.7 WWU disagreed with our proposed position, noting that NIA funding levels and criteria are too narrow and insufficient to support the innovation needed to facilitate progress towards net zero. NGN also disagreed with our funding decision, noting that WWU's NIA allowance has been significantly cut and included several valuable projects.

6.8 In its Draft Determinations response, WWU submitted an updated request of £22.7m, accepting part of our proposed reduction but requesting the reinstatement of £9.75m from the £24.45m reduction. From the workstreams that we proposed disallowing, WWU submitted:

[12] This was initially stated as £11.8m, however this was an arithmetic error.

- a revised request for £4.35m for energy system planning, which we have decided to approve following evidence provided that it is not duplicative of NESO's work;
- a revised request of £1.5m for green gas facilitation, which we have decided to approve on the basis that no work is done on hydrogen blending; and
- WWU's initial request of £3.9m for decarbonising its fleet, which we have decided not to allow as the proposal relates to developing a hydrogen fleet which we do not think should be covered by NIA, in line with our future of gas position which is set out in further detail in the Overview Document.

6.9 Additionally, WWU provided further evidence against the criteria set out in the BPG. While it explained in sufficient detail how it will deliver its NIA activities, we expected further detail to be provided on how it collaborates with networks to identify and deliver NIA projects, and why its innovation can't be totex funded at a workstream level.

6.10 Following our assessment of the additional information WWU provided in its response, we decided to decrease its NIA reduction from 9% to 4%.

7. Data and Digitalisation

Introduction

7.1 The SSMD, BPG and Overview Document identify the criteria and process that we have used to assess the funding of proposed Data and Digitalisation investments. The Overview Document also details our decisions for further digitalisation of the sector through the existing Digitalisation licence condition and through a Digitalisation Re-opener.

7.2 We have set out below our Final Determinations position on WWU's RIIO-3 Data and Digitalisation funding.

Summary of Final Determinations

Design	Final Determinations	Draft Determinations
Data & Digitalisation funding	£19.3m allowed	Same as FD

Final Determinations rationale and Draft Determinations responses

7.3 In its Business Plan, WWU requested £21.1m of Data and Digitalisation funding. We identified one investment totalling £0.8m which was miscategorised, leaving £20.3m of Data and Digitalisation investment proposals. We proposed to allow £19.3m at Draft Determinations. Following further assessment, we have decided to allow £19.3m, or 91% of the total Data and Digitalisation funding requested.

7.4 WWU's digitalisation investments were focused primarily on developing its internal digital infrastructure, through the development of a data lakehouse (to be driven by stakeholder and data user needs) and increasing internal digital expertise and capability. This also included investment to better enable regulatory reporting to Ofgem. Several of WWU's investments related to maintaining or further increasing compliance with Data Best Practice principles.

7.5 In the BPG, we noted that all licensees should signpost investments that would allow them to connect and to utilise the Data Sharing Infrastructure (DSI) effectively. WWU noted the creation of an interface between its own internal data infrastructure and the DSI as a key initiative for RIIO-GD3.

7.6 In response to the Draft Determinations, WWU provided feedback that it was satisfied overall with the amount of Data and Digitalisation investment we were proposing to allow. We had proposed to reject a digital twin project totalling £1.0m due to lack of detail on scope and timeline. WWU responded that this information would not be ready within the response window and that the project

would require a re-opener. It noted that the investment would be needed to meet a requirement from NESO. This would put it within the scope of the re-opener.

7.7 In response to our Draft Determinations proposal, WWU raised concerns with Data and Digitalisation investments being included in regression models. These are models that estimate efficient costs based on sector-wide data (see Chapter 5 Cost of service for further information). It was not intended for Data and Digitalisation to be included in these models, and this error has since been rectified.

7.8 At Draft Determinations, we identified £0.8m of proposed investment that had been miscategorised as Data and Digitalisation. The SCADA project was not sufficiently digitally transformative and therefore was more suited to be categorised as IT & Telecoms (IT&T). We have decided to retain our Draft Determinations position.

Appendix 1 - Summary of Engineering Review

Table 28: WWU Justified EJPs

Ofgem Scheme Reference (OSR)	Title
WWU.3	Distribution Steel Pipelines
WWU.7	Pipeline Replacement - HS007
WWU.9	Pipeline Replacement - HW009/HW010
WWU.11	LTS AGI (E&I): Offtakes, PRIs, Storage
WWU.13	LTS AGI (Mech): Offtakes, PRIs, Storage
WWU.5	LTS Pipelines - General Pipelines
WWU.18	Mandatory mains replacement programme (incl. STUBS)
WWU.20	Non-mandatory mains replacement programme (Iron/Steel) - incl. Build overs

Table 29: WWU EJPs - Summary of Justification Outcomes

EJP Title	Ofgem Draft Determinations Position	Response to Draft Determinations	Ofgem Final Determinations Position
Governors WWU.25	Partially Justified. Alternative optioneering proposed. We proposed alternative optioneering for refurbishment only. The refurbishment only option yields a better net present value (NPV) and is a technically viable option that addresses asset health, maintains compliance and extends the life of the asset beyond ten years. Although replacement may be necessary in some instances, it is not clear from the asset health data currently provided which assets this would apply to. Potential replacements should be clearly identified by supporting asset health data to support any alternative engineering optioneering.	Data pertaining to assets and associated health condition was not provided. Proposed volumes are based on modelled data.	Partially Justified. Alternative optioneering proposed. We have decided to maintain our Draft Determinations position due to insufficient evidence on the health condition of specific governors to justify the proposed volumes having been provided by WWU. It is reasonable to expect some amount of funding will be required for governors and we consider WWU's 'refurbishment only' option to be appropriate.
Risers & MOBs WWU.29	Partially Justified. Reduced volumes.	WWU provided additional detailed scope and asset health information for Complex Distribution Sites (CDS). A complete asset data repository, independent of planned intervention, for all risers was not provided.	Partially Justified. Reduced volumes. We have decided to increase volumes from those set out in our Draft Determinations for Complex Distribution Systems as data has been provided which enables an assessment to be undertaken.

EJP Title	Ofgem Draft Determinations Position	Response to Draft Determinations	Ofgem Final Determinations Position
	Clearer inspection data is required for Complex Distribution Systems (CDS) sites to understand scope of works, specific site details, site asset health scores, risk scores, action threshold, site prioritisation, cost breakdown and planned intervention to justify inclusion in our draft determinations. CDS volumes have been reduced until this data is provided. Asset health data for 91 high rise buildings (HRBs) (10+ floors) has not been provided for all materials so the volumes for HRBs has been reduced. Data is missing for 74 medium rise building (MRB) (6-9 floors) steel risers. These volumes have been reduced in our Draft Determinations. Complete asset health data would be required for highlighted volumes for full justification.	Asset health data was provided for HRBs and MRBs where intervention was planned.	We have decided to increase volumes from those set out in our Draft Determinations for HRBs and MRBs to enable the intervention on high-risk risers. The asset repository data returned did not include details on corrosion, therefore this could not be assessed when determining volumes. Assets which had an asset health score<5.5 are unjustified.