# RIIO-3 Final Determinations – Impact Assessment

| | |
|---|---|
| Publication date: | 4 December 2025 |
| Associated documents: | Overview document, sector and finance annexes |
| Contact: | Network Price Controls |
| Team: | RIIO-3 |
| Email: | RIIO3@ofgem.gov.uk |
| Type of measure: | Price Control |
| Type of IA: | Qualified under section 5A UA 2000 |

This document sets out our assessment of the impacts of RIIO-3 Final Determinations on consumers and network companies under the price controls commencing 1 April 2026. The assessment covers the gas distribution, gas transmission and electricity transmission sectors and should be read alongside our wider suite of RIIO-3 Final Determinations.

Any enquiries related to the text of this publication should be sent to Ofgem at:

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

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

# Contents

# Executive Summary

This is our Impact Assessment (IA) for the next Electricity Transmission (ET), Gas Transmission (GT) and Gas Distribution (GD) price controls, RIIO-ET3, RIIO-GT3 and RIIO-GD3 respectively.

## What is the problem under consideration? Why is Ofgem intervention necessary?

Gas and electricity networks are natural monopolies. Therefore, they are regulated by price controls. The current price controls for ET, GT and GD end in March 2026 so we need to set a new price control for each network company in these sectors. In our RIIO-3 Framework Decision[1] we concluded that the current RIIO methodology for price controls provides the necessary balance for achieving several challenging objectives such as supporting the energy system transition while maintaining security of supply, high quality of service, and fostering system efficiency and long-term value for money. However we also concluded that it should be adapted to reflect the challenges associated with the energy transition, including the need for more and faster investment.

The purpose of this IA is to bring together all the RIIO-3 Final Determination decisions (for RIIO-ET3, RIIO-GT3 and RIIO-GD3) and consider the overall economic impacts of them including, but not limited to, the direct effects on network revenues and on network charges for both domestic and non-domestic customers.

## Policy objectives and intended effects including on Ofgem's Strategic Outcomes

Our Final Determinations reflect a decision to invest now to avoid higher costs later. Acting now will support the transition to renewables, strengthen energy security, reduce long-term costs, create jobs, and help meet government growth and decarbonisation targets – ultimately protecting future consumers. Gas and electricity sectors face distinct challenges:

- In ET, significant expansion of the transmission network is required to connect new low-carbon generation and ensure system resilience and energy security. Investment during RIIO-ET3 could exceed £70bn by 2031 (almost four times RIIO-ET2 spend). Our determinations aim to enable efficient capital injection, whilst maintaining cost controls and strong delivery accountability. We are managing short-term bill impacts and also recognising that network build out is essential to relieve pressure on consumer bills in the medium and long term.

[1] Decision on frameworks for future systems and network regulation | Ofgem

- In the gas sectors, network infrastructure remains critical to heat homes, for industrial processes, and for energy security. While the pace of the transition away from natural gas is uncertain, our RIIO-3 decisions ensure that networks remain safe and resilient. Investment is targeted, proportionate, and aligned with long-term system needs, ensuring costs are allocated fairly across different generations so consumers pay fairly for the services they receive.

## What are the policy options that have been considered, including any alternatives to regulation?

In our RIIO-3 Framework Decision we concluded that the RIIO methodology for price controls could be adapted to provide the necessary balance for achieving several challenging objectives such as delivering net zero transition projects at pace and maintaining a high quality of service at an efficient cost.

As part of the methodology development for RIIO-3 Sector Specific Methodology Decision (SSMD),[2] we built on the design of the RIIO-2 price controls to achieve the best outcomes for consumers.

This Final Determinations IA includes the latest views on the impacts including totex, cost of capital, depreciation and re-profiling revenue to create a smoother path of increases in RIIO-3.

## Preferred option – monetised impacts (£m)

Our Final Determination decisions will increase network charges in 2030/31 by £108 compared to charges in 2025/26.

This will support additional investment (eg connection of renewable generation and flexibility services) and will also result in constraint cost savings and lower wholesale cost.

Whilst bills will be higher overall, our assessment is that they will be significantly lower than in a counterfactual of an evolved RIIO-2. Although RIIO-3 retains some similarities to RIIO-2, we have made strategic changes to the framework so that TOs can invest earlier, which will deliver significant constraint cost reductions and support acceleration of a decarbonised power system, with lower wholesale costs.

The economic benefit of this investment is hard to measure exactly, but we have estimated around £6bn of lower system costs in the last year of RIIO-3. Most of the

[2] RIIO-3 Sector Specific Methodology Decision for the Gas Distribution, Gas Transmission and Electricity Transmission Sectors | Ofgem

initiatives required are cost-neutral over time: we estimate that acceleration of projects might cost approximately £2bn during RIIO-3.

### Preferred option – hard to monetise impacts

There are a number of hard to monetise impacts that support our decisions. These include:

- strategic benefits associated with the transition towards net zero such as security of supply and avoiding inherent volatility of global energy markets;
- the contribution of network build to reducing the amount of greenhouse gas emissions from the generation of electricity; and
- wider economic benefits, including the impact on growth and jobs.

Overall, given the strategic importance of the transformation of the electricity grid supported by RIIO-3, we expect that the investment programme facilitated by RIIO-3 will deliver significant benefits in all these areas. Since we also consider that the monetised benefits are positive, we have not undertaken further quantitative assessment, although some of the network companies provided illustrative quantifications that support our finding that these benefits are likely to be material.

### Key assumptions/sensitivities/risks

As part of the transition to net zero, there are two main risks that arise in the RIIO-3 period from the investments in the electricity networks: the risk of late delivery of infrastructure and the risk of increased costs for Clean Power 2030 (CP2030) projects, and significant uncertainty over the demand and price for gas over the price control period and beyond due to geopolitical factors and other developments outside of the control of network companies. Different outcomes on wholesale prices and demand for electric vehicles and heat pumps could also significantly affect the outcomes of RIIO-3.

### Will the policy be reviewed?

Yes, RIIO-3 will be reviewed when we start work to set the next set of ET, GT and GD price controls.

### Is this policy in scope of the Public Sector Equality Duty?

No. Ofgem must have due regard to the need to eliminate discrimination, harassment and victimisation, advance equality of opportunity, foster good relations between groups, and any other conduct prohibited by or under the Equality Act 2010. RIIO-3 is not expected to have effects that relate to this duty.

# 1. Introduction – problem under consideration

1.1 Ofgem must set new price controls for ET, GT and GD to apply from April 2026. This IA supports the RIIO-3 Final Determinations and should be read as part of the full suite of Final Determinations documents.

1.2 RIIO-3 builds on RIIO-2, retaining the principles and broad approaches while updating mechanisms, incentives, values and deliverables based on changed circumstances and lessons learned. This IA focuses on the strategic changes from RIIO-2, avoiding unnecessary complexity and repetition by not reassessing mechanisms which have not changed since RIIO-2.

1.3 This IA evaluates strategic changes that go beyond an evolution of RIIO-2, by comparing these strategic changes to a RIIO-2-based counterfactual which maintains current investment levels. The broad strategic changes are:

- in ET, unprecedented grid expansion needed to support clean energy and energy security; and
- in gas, promoting investment in safe and secure networks, while managing uncertainty about future gas use and policy.

1.4 These strategic changes come with additional costs above those that we would have made had we continued to evaluate investment and financing choices using a continuation of the RIIO-2 methodology. This is the counterfactual against which we assess the impact of our RIIO-3 decisions (ie an "evolved" RIIO-2), and as we detail throughout this IA, we consider that these are justified because of the constraint costs that will be avoided as a result of the anticipatory investment that we are allowing as well as the other benefits that come with connecting more renewable energy to the grid.

1.5 The additional costs associated with these strategic changes are relatively modest as a share of the overall investment expected in the networks. For example, some of the ET investment might be deferred, and customers would make savings reflecting the fact that people prefer to pay later (time preference of money). The exact timing of each investment would be hard to quantify. As described in the RIIO-3 Final Determinations ET Annex, we consider that the package is justified by the combination of avoided constraint costs and the benefits that come from connecting renewable energy.

1.6 Many consumers and stakeholders are primarily interested in what their energy bills will look like in RIIO-3. Therefore, in this IA we have monetised the impact of

our decisions against the baseline of current bills as set in the price cap in 2025/26. We also provide information on the impact on non-domestic bills.

1.7 In the rest of this document:

- we summarise responses to our Draft Determination IA;
- we set out what is in scope of the counterfactual and preferred option;
- we provide a summary of the impacts which are treated in more detail in the other Final Determination documents such as sector and finance annexes;
- we assess the impact of RIIO-3 on ET, GT and GD network revenues and provide a non-quantified assessment of the benefits of the preferred option;
- we assess other hard to quantify environmental and growth impacts; and
- we quantify bill impacts on energy consumers, including non-domestic consumers. We also provide sensitivity analysis following Ofgem's IA guidance[3] on risks and uncertainties.

[3] Impact assessment guidance | Ofgem

# 2. Scope of this IA

## Other impacts and considerations covered in this IA

2.1 In this IA we keep the basic structure used in the Draft Determinations IA, with some changes in response to views expressed by stakeholders in response to our Draft Determinations IA.

2.2 As in previous RIIO IAs, this document covers the impact of the main decisions that we are taking in RIIO-3 compared to RIIO-2. It evaluates key decisions in RIIO-3 by comparing them to a counterfactual based on an evolved RIIO-2. Many areas remain broadly unchanged compared to RIIO-2. However, strategic updates include:

- ET: Enhanced uncertainty mechanisms and stronger delivery incentives to support CP2030 and wider decarbonisation and growth targets.
- GD: Accelerated depreciation for new assets.
- Cross-sector finance: Introduction of semi-nominal weighted average cost of capital (WACC) and a gas debt premium.

2.3 The IA focuses on these specific changes. It also explores broader impacts of RIIO-3 decisions on the environment, non-domestic consumers, energy suppliers, growth and distributional impacts.

## Responses to our Draft Determinations

2.4 We received fourteen responses to our questions on the IA, including from seven network companies.[4] Stakeholders expressed mixed views on our approach to assessing economic and bill impacts under RIIO-3.

2.5 In our Draft Determinations IA we asked the following questions:

- IAQ1: Do you agree with our approach to assessing the economic impacts of RIIO-3?
- IAQ2: What are your views on the appropriate approach to evaluation of the economic impacts of RIIO-3?
- IAQ3: Do you agree with our approach to modelling the bill impacts of RIIO-3? Please provide any additional effects or alternative measures that you think would be appropriate.

[4] National Gas, National Grid Electricity Transmission (NGET), Northern Powergrid (NPg), SGN, Scottish Hydro Electric Transmission (SHET), Scottish Power Transmission (SPT), and Wales and West Utilities (WWU).

2.6 Most respondents supported our approach with some caveats. The majority of responses were focused on the counterfactual and recommendations for additional analysis. Some stakeholders raised concerns including a lack of transparency about the counterfactual, modelling assumptions, and insufficient consideration of non-domestic and vulnerable consumers. One respondent was critical that our IA did not address more granular RIIO-3 decisions such as the choice of return on investment or our decision to implement accelerated depreciation.

2.7 We discuss these responses throughout the following chapters, including whether we have adopted the suggested changes and why.

2.8 In Chapter 5 we have extended our analysis of the impact on non-domestic consumers and have included distributional impacts, including the relative effects on lower income consumer categories.

# 3. Economic assessment of RIIO-3 proposals

3.1 The economic assessment in this IA builds on the framework established in RIIO-2, adapting it to meet the strategic challenges of the energy transition. Our approach compares the final RIIO-3 decisions against a counterfactual scenario which assumes a continuation of RIIO-2 mechanisms with updated parameters but no major policy shifts. We compare this against the RIIO-3 mechanisms in the following areas:

- acceleration of ET investment;
- accelerated depreciation of new GD investments; and
- the move to a semi-nominal WACC.

3.2 Table 1 summarises the differences between the baseline, counterfactual, roll-forward and factual scenarios that we use in the assessment in this IA.

Table 1: Description of scenarios used in this IA

| **Scenario** | **Description** |
|---|---|
| Baseline | This is the level of network cost in 2025/26 (ie the last year of RIIO-2). When presenting the baseline as a bill effect, we use an average of April and October 2025 network costs. We use this to compare the aggregate effect of the RIIO-3 price control on networks and customers. |
| Roll-forward | The roll-forward scenario represents what the RIIO-3 network costs would look like between 2026/27 and 2030/31, had we kept 2025/26 assumptions. It assumes flat totex profile from 2025/26 onwards and applies the same RIIO-2 capitalisation rates, WACC, depreciation, incentives and pass-through allowances. The network cost is still different to 2025/26, primarily due to the difference between 2025/26 totex and depreciation rates meaning that the current cost of RAV would change even in a roll-forward scenario. |
| Economic counterfactual | This scenario assumes the continuation of the price control on the basis of RIIO-2's design. However, we assume that we would have followed RIIO-2 approach when setting the parameters of the new price control, eg the WACC and totex. As a result, both the WACC and totex would be higher than in a roll-forward scenario, since the underlying drivers (eg government interest rates, network investment requirements) have changed since RIIO-2. |
| Factual | This scenario reflects the impact of all decisions made in RIIO-3. It results in more investment that in the counterfactual, as we use additional mechanisms to accelerate investment. It includes some changes to the financial framework, to balance risks between current and future consumers. |

## Our economic counterfactual

3.3 We have retained the approach in our Draft Determinations IA of treating an evolved RIIO-2 as the economic counterfactual ("the counterfactual"). The counterfactual is not a "do-nothing" baseline, as a new price control must be implemented following the expiry of RIIO-2 in March 2026. Instead, it represents a "do-minimum" approach, where existing tools and methodologies are retained but updated to reflect changed market conditions. This includes adjustments to the cost of capital, totex allowances, and incentive mechanisms.

3.4 While many of these changes are common between the counterfactual and our Final Determinations, as detailed below, the strategic changes we are introducing in RIIO-3 mean that we expect there to be more benefits achieved from network investment more quickly. For gas, we consider that our changes will result in more resilient and financially secure networks.

3.5 The majority of respondents to our Draft Determinations did not comment on the IA. Several respondents did suggest alternatives to our choice of counterfactual in the consultation responses though.

3.6 SGN suggested changes to the design of our counterfactual. It criticised the approach to building the counterfactual including the assumed changes from RIIO-2, and our approach of using a roll-forward scenario to illustrate bill effects. It stated that our IA does not include:

- an assessment of how proposed cost cuts would effect networks' ability to meet statutory and safety obligations;
- analysis of accelerated depreciation impacts on financeability and economic growth;
- sufficient evaluation of decarbonisation and distributional impacts, despite prior commitments;
- a risk assessment of our reliance on a single totex model, cost of capital estimates, and ability to attract investment; and
- a clear articulation of statutory duties or stated effects of decisions.

3.7 In general, network companies also recommended adding additional analysis to the assessment of economic impacts. We have expanded elements of this analysis, and discuss this further in Chapter 5 and Chapter 6.

3.8 SGN's proposed approach would require that we repeat at least some of the same analysis that we include in the relevant sector decisions within this impact assessment. In our view this would be disproportionate. The aim of the impact

assessment is to review the choice to make changes from the RIIO-2 framework. The analysis justifying decisions on the detailed design of the framework, including cost assessment and the choice of WACC parameters, can be found in the overview document and the other annexes. In our view, reviewing different ways in which we could have evolved the RIIO-2 framework eg through different cost assessment or cost of capital approaches, would not help us understand the benefits of moving away from that framework to the RIIO-3 approach included in this assessment.

3.9 An example of an area in which we consider SGN's suggested approach would unnecessarily duplicate our sector-specific annexes is in relation to cost benchmarking. Our understand of SGN's proposed alternative approach is that we would need to assess whether we would have made changes to the cost benchmarking methodology under an evolved RIIO-2. However, we have not linked any of our decisions around the form of the cost benchmarking methodology to the changes between the RIIO-2 framework and the RIIO-3 framework, and such analysis would not meaningfully demonstrate the impacts of our RIIO-3 decisions. In summary, reviewing additional factors such as those raised by SGN in this IA would in our view involve repeating existing analysis and would not provide a more effective understanding of the strategic changes we are bringing about in RIIO-3.

3.10 SHET said that our bills counterfactual leaves room for speculation, since it is an evolution of RIIO-2 rather than a concrete counterfactual, and that we could have cherrypicked policy decisions and then stated that they were inevitable to suit the analysis. SGN also submitted that the counterfactual choice would undermine the benefits case as many of the benefits from delivering additional more resilient network infrastructure would not be assessed.

3.11 SPT said that the counterfactual could also include some acceleration of transmission investment. SPT said that the counterfactual implies that the mechanisms that remained from RIIO-2 would not deliver incremental investment. It criticises the limited scope due to unchanged RIIO-2 mechanisms and lack of interaction effects. In general, SPT supports the approach but finds it understates impacts. NGET also supported the approach to taking RIIO-2 as the counterfactual, but said that we should give more evidence of the scale of the effects that we were assuming would result from the changes between RIIO-2 and RIIO-3 in supporting transmission investment.

3.12 The choice of counterfactual is difficult. We need to have a new price control to replace RIIO-2 when it ends in March 2026. Therefore, we need an economic

counterfactual which represents a practical and measurable approach to setting the price control in the RIIO-3 period were we to have made no changes to our approach to setting price controls. In the Framework Decision we explored several approaches to regulation and concluded that RIIO was still providing a valid mechanism to achieve our key regulatory objectives. We did decide that some elements of the price control might need to change though, in particular to reflect the size of in-period investment. We decided in our Framework Decision for some of these investments that we should move away from the model of incentive regulation used in RIIO-2, and to include elements of the "Plan and Deliver" archetype. Otherwise, our approach in this IA is consistent with our Framework Decision, which considers that most policies are the natural evolution of RIIO-2, and our review of responses also does not suggest that they demonstrated any better approaches to the economic counterfactual.

3.13 If we were to adopt SGN's suggested approach, we would need to assess each of the relevant decisions individually, and then consider the interactions between them. This would result in a very long IA largely duplicating the analysis we have already presented in the other documents (overview and annexes). In our view, it would be incorrect to develop an IA on the assumption that RIIO-3 is an entirely new approach to setting the price control. It would also depart from the approach we have followed in previous RIIO IAs. As detailed above, our RIIO-3 decision represents an evolution of RIIO-2 but with key, and significant, strategic changes in policy which we have focused on in this IA.

3.14 SGN's response suggests a model which aligns with key elements of our approach, in identifying a "RIIO-3 Do Minimum" as a suitable economic counterfactual. Our view is that "evolved RIIO-2" could be seen as a similar concept to "RIIO-3 Do Minimum". We have sought in this IA to more clearly distinguish the "roll-forward" scenario used in demonstrating the effects on bills during RIIO-3 from the economic counterfactual using in assessing the impacts of RIIO-3.

3.15 We recognise that the decision to use an evolved RIIO-2 as a counterfactual means that the detailed design of the economic counterfactual requires some judgement. To that degree we agree with SHET and SPT that alternatives could have been used. This does not mean that we need to re-run an IA with all these alternatives. This is partly because it would not be practical to run a wide range of alternative counterfactuals, but also because in our judgement the overall conclusion in this impact assessment that the benefits of RIIO-3 outweigh the costs would not be materially affected by re-running different counterfactuals.

Our ET annex in particular illustrates why we have selected the detailed design of the RIIO-ET3 price control over alternatives.

3.16 As discussed in our 'overall assessment' in this chapter, and in Chapter 4, we conclude that the overall economic benefits of the changes in RIIO-3 significantly outweigh the costs. The objective of our IA is primarily to demonstrate the case for the framework that we have chosen over the alternatives. Our view is that this case is clearly met. As a result, whilst we could have undertaken further analysis in respect of some of the areas proposed by these responses, particularly around non-monetised benefits, such analysis would have reinforced the case that we have already made. Our view is therefore that the approach followed by this IA is proportionate and consistent with the intention of a regulatory IA.

## Our factual scenario: RIIO-3 Final Determinations

3.17 Our factual scenario – the RIIO-3 Final Determinations – introduces strategic changes designed to meet government's priorities of enhancing system resilience, supporting the rapid deployment of renewable energy, and ensuring a fair distribution of costs between current and future consumers. These strategic changes include both significant increases in electricity transmission investment, and also some changes to the financial framework which reflect the changes in the gas and electricity sectors, such as the introduction of a semi-nominal approach to the WACC, and accelerated depreciation for new assets in the gas distribution sector.

3.18 The financial framework under RIIO-3 reflects a shift in regulatory approach. WACC assumptions (including the decision to move to a semi-nominal WACC) have increased from 3.4% to 5.6% for ET and from 3.6% to 5.2% for the gas sectors, reflecting higher market risk and the need to attract capital for large-scale infrastructure projects. The semi-nominal WACC approach changes how inflation is treated, providing more upfront cash flow and reducing long-term indexation. In GD, depreciation for new assets is accelerated to align with the expected decline in network usage as the UK transitions away from natural gas.

3.19 Overall, we maintain the same conclusions as in our Draft Determinations IA. The preferred RIIO-3 framework is expected to deliver significant net benefits to consumers, particularly in electricity transmission. The strategic investments supported by the Final Determinations are expected to reduce system costs, enhance energy security, and support the UK's decarbonisation ambitions. While some changes result in higher transmission charges in the short term, these are offset by long-term savings and improved system performance. Our Final

Determinations represent a balanced approach to regulation, recognising both the need for investment and also the wider consumer interest, including affordability and fairness.

3.20 The impacts differ by sector, as discussed below.

### Sector-specific impacts

3.21 ET is the most transformative sector in RIIO-3. Investment is projected to rise from £18bn during RIIO-ET2 to up to £70bn during RIIO-ET3 as we expand the network to reduce constraint costs, reduce our reliance on wholesale gas prices and connect new renewable generation (2023/24 prices).

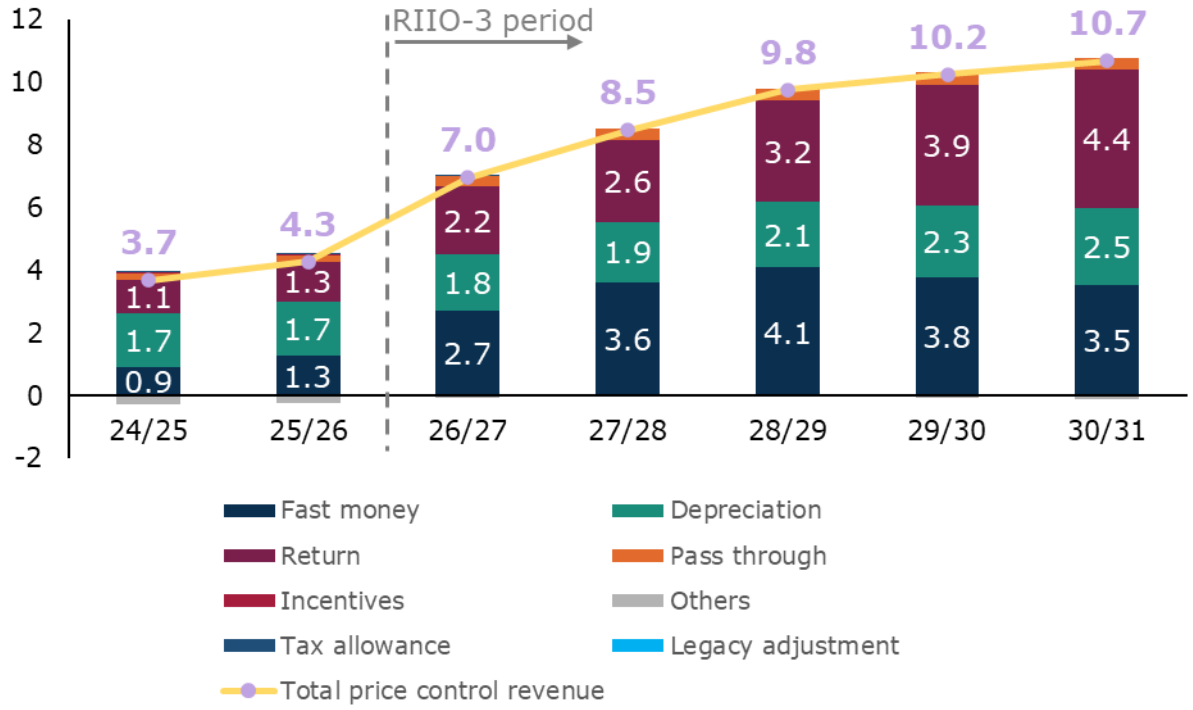
3.22 Our RIIO-2 framework includes Accelerated Strategic Transmission Investment (ASTI) and Large Onshore Transmission Investments (LOTI), both of which seek to allow investment that arises during the period. However, in RIIO-3 we are embedding additional mechanisms including the Advanced Procurement Mechanism (APM), the Centralised Strategic Network Plan (CSNP) Re-opener, and additional delivery incentives into the RIIO-3 package, as well as certain large use it or lose it (UIOLI) allowances. As a package, we consider this will accelerate investment, both by providing more assurance to Transmission Owners (TOs) on the availability of funding for necessary projects, and by providing strong incentives to hold TOs to account for the delivery of those projects.

3.23 These tools provide flexibility and accountability, allowing TOs to respond to evolving system needs while protecting consumers. We have designed the CSNP Re-opener and the Load Re-opener as developments of the uncertainty mechanisms used in RIIO-2, and we consider these will be able to address the significant uncertainty that exists during the RIIO-3 period. We currently envisage over £20bn of investment being facilitated and accelerated during RIIO-3 by these mechanisms, enabling faster connection of renewable energy as well as meeting ongoing system needs. The economic benefits of these investments are substantial. Constraint costs, which arise when the grid cannot accommodate low-cost generation, are expected to be lower, potentially falling from £8bn without investment to £3bn annually by 2030.[5] Wholesale electricity prices should also decline as renewables displace gas-fired generation, reducing exposure to volatile global gas markets. Accelerating investment increases the present value of costs, as they are incurred earlier. However, constraint cost savings and wholesale market benefits are expected to outweigh these upfront expenditures.

[5] See RIIO-3 Draft Determinations Impact Assessment

3.24 Figure 1 illustrates the impact of our proposed option on price control revenues during the RIIO-3 period. For RIIO-ET3, we have modelled an increase in total revenues of 149% from 2025/26. (We estimated a 153% increase in Draft Determination IA).

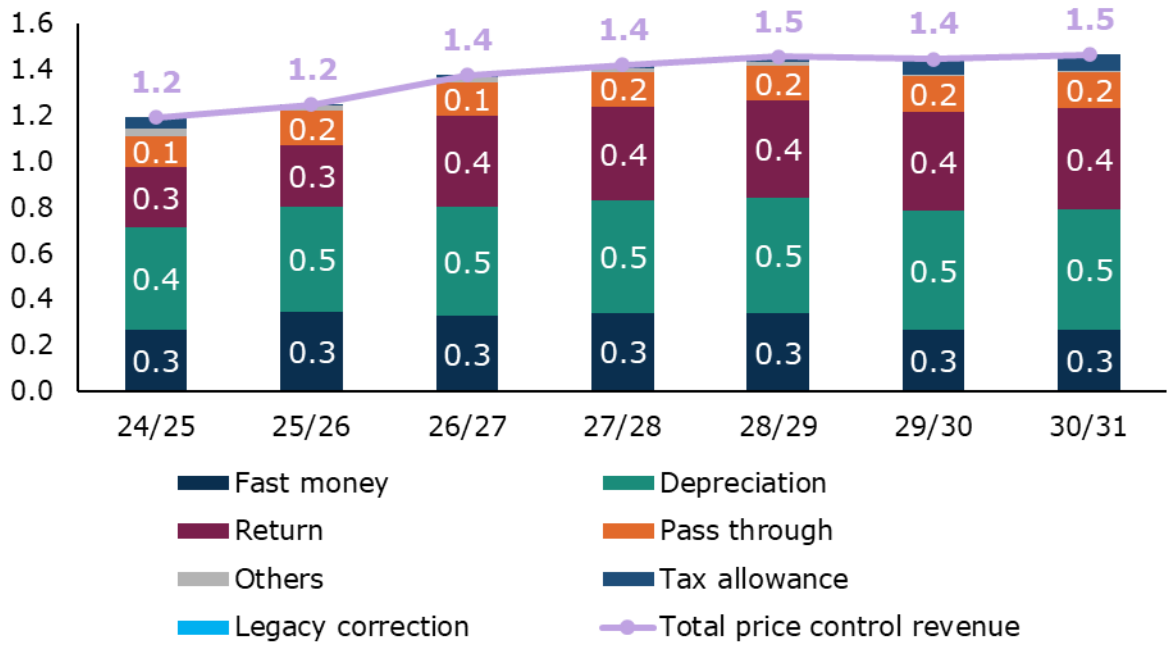
Figure 1: Projected Price Control Revenue for RIIO-ET3, £bn, 2025/26 prices




3.25 GT, by contrast, remains largely unchanged compared to RIIO-2. The Final Determinations do not introduce major policy shifts, and revenue increases are driven primarily by adjustments to capitalisation rates and WACC. These updates to the detailed parameters reflect changes in market conditions rather than RIIO-3 policy decisions, and would be included in the factual and counterfactual scenarios.

3.26 We estimate that the total GT revenue by 2031/31 (the end of RIIO-3) will be 17% higher than in 2025/26. We estimated an increase of 13% in our Draft Determinations. The difference is driven by adjustments to capitalisation and pass through costs.

Figure 2: Impact of RIIO-3 decisions on Gas Transmission price control revenue, £bn 2025/26 prices

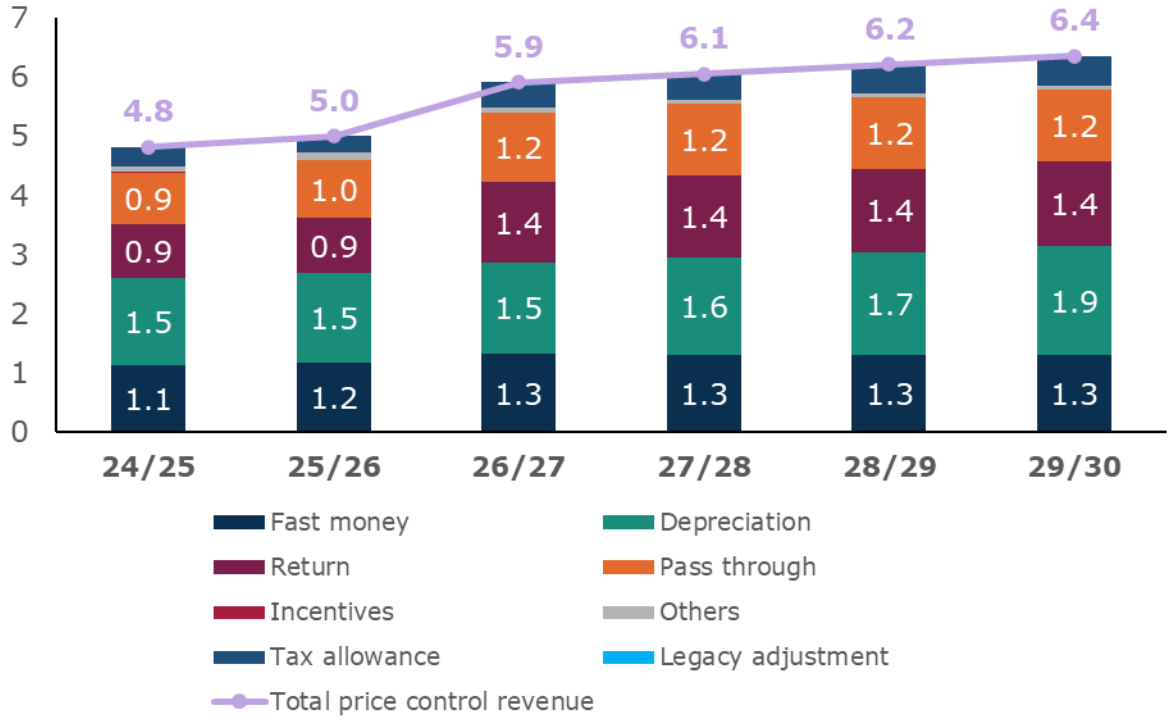



3.27 GD sees a more notable change in RIIO-3 through the introduction of accelerated depreciation for new assets. This reflects the uncertainty surrounding the long-term role of gas networks and aims to ensure that current consumers pay a fair share of costs for infrastructure that may become obsolete. While this change increases short-term charges, it is considered Net Present Value (NPV)-neutral and consistent with our duty to balance the interests of different consumer cohorts.

3.28 The key strategic change in GD is on our approach to depreciation of existing and new assets. Our starting point across the sectors is to assume a 45-year asset life and use "natural rates" for capitalisation. However, we depreciate new assets in GD based on a sum-of-digits approach, such that the new investment is fully depreciated by 2050. This increases costs by around £400m per annum by the end of RIIO-3, equivalent to around £9 per bill for a domestic consumer.

3.29 We estimate that total revenue in RIIO-GD3 will increase by 27% compared to the end of RIIO-GD2. This represents an increase relative to our Draft Determination IA where we estimated an increase of 17%. The difference is due to adjustments to GD totex, repex and business rates in Final Determination.

Figure 3: Price Control Revenue in RIIO-3 for Gas Distribution, £bn, 2025/26 prices




3.30 Figures 1 – 3 illustrate that costs have increased in all the sectors as a result of higher financing costs. The aggregate effect is over £2bn a year, and the main drivers of this are the change to a semi-nominal WACC, higher financing costs, and a higher equity beta. Whilst these changes all increase costs to consumers in RIIO-3, we do not consider that they should be seen as representing additional economic costs relative to the counterfactual, because:

- The move to a semi-nominal WACC (around £900m) represents a transfer between current and future consumers, and for the reasons stated in our finance annex should support more efficient financing over time;
- Other changes to the WACC calculation, including equity beta (around £1.1bn) have been calculated using a RIIO-2 approach. Whilst it is plausible that the size of the forward-looking WACC might be affected by our RIIO-3 choices, we cannot directly measure this, and in the case of equity beta most of our comparators are outside the UK energy network sector.

3.31 We therefore do not assume any direct impact on the WACC parameters from our RIIO-3 strategic decisions.

## Conclusion on economic assessment.

3.32 As discussed above, we see there being substantial economic benefits from our approach to RIIO-3. We see significant savings from avoided constraints costs, as

well as from lower wholesale prices. In terms of the effect of on bills of these factors, we provide a quantification of these in Chapter 5 of this IA. Overall, the benefits are expected to outweigh the additional costs associated with the move to the RIIO-3 framework.

3.33 The direct costs of RIIO-3 are focused on the acceleration of investment. Earlier investment of some of the £70bn of transmission network build (in 2023/24 prices) will increase the cost to today's consumers. However, much of this investment would be needed anyway. In RIIO-ET2 we introduced ASTI, and in RIIO-ET3 we build on this with our range of uncertainty mechanisms for load-related expenditure. The CSNP Re-opener and other load-related re-openers represent over £20bn of RIIO-ET3 investment. A two-year acceleration in the additional RIIO-3 investment would therefore increase the present value of the cost of these investments by around £2-3bn over RIIO-3, based on the assumption that this increases the current value of costs by two years of WACC.[6]

3.34 The potential for savings from lower annual constraint costs would be £4bn in 2030 alone, if ET investments are delivered as planned. These benefits, on a per domestic consumer basis, are discussed further in our bills analysis in Chapter 5. For reasons outlined in our ET Annex, we consider that this accelerated investment can be achieved without a material increase in wider risks or costs to consumers. We are able to rely on strategic planning from NESO and evidence from the TOs as a condition of approving the investment.

3.35 The changes to the financial framework, including the move to a semi-nominal WACC and accelerated depreciation, are all justified on a case-by-case basis in our financial framework annex. Whilst they increase bills today, they are all intended to be NPV-neutral, and to better balance the costs between current and future consumers. We do not therefore include these as economic costs in our economic impact assessment.

3.36 On balance, we consider that the savings associated with the additional framework decisions in RIIO-3 are significant and outweigh the costs. We see much of the bill savings of up to £80 a year can be attributed to RIIO-3. Whilst the aggregated bill increases are over £100, many of these are attributable to RIIO-2 roll-forward, or to changes that would have happened under the counterfactual anyway. We consider there are significant monetised net benefits from our RIIO-3 decisions. Had we considered alternative definitions of the

[6] Using the HM Treasury Green Book social time preference rate of 3.5%.

evolved RIIO-2 counterfactual, this would not have materially changed this analysis and therefore would not have changed our finding that RIIO-3 results in net economic benefits compared to the economic counterfactual. In addition, as discussed in the next section, we also expect significant non-monetised benefits and wider benefits, although we recognise these are hard to attribute to RIIO-3, relative to the counterfactual of an evolved RIIO-2.

# 4. Wider impacts and evaluation plans

4.1 This chapter explores the broader societal, economic, and environmental implications of Ofgem's decisions, beyond the direct financial and regulatory effects. It begins by reaffirming our statutory obligations to consider strategic priorities such as the UK's net zero goals, energy security, and economic growth. These duties are embedded in the Strategy and Policy Statement for Energy Policy in Great Britain, the Statutory Growth Duty introduced in 2024, and various environmental and biodiversity legislation.

## Our assessment of responses to the approach to wider impacts

4.2 SPT argued that our analysis in the Draft Determinations IA did not fully capture the positive impacts associated with a more integrated energy network. SPT said that instead of focusing directly on monetisable impacts, we should have also reflected the cost savings and improved efficiency that arise from improvements to strategic planning and demand side response. Explicitly monetising these impacts could more accurately reflect the benefits of RIIO-3, in its view. Other responses also said that we should provide more quantitative analysis of the wider impacts of our RIIO-3 package of decisions.

4.3 We have not sought to consider impacts that RIIO-3 investments could have on a more integrated network – as will be supported through the Regional Energy Strategic Plan (RESP) and Market Facilitator schemes – as part of this IA. While we acknowledge the contribution that network investment has to these and to other wider benefits, we have decided to keep the analysis at a high level. In any case, detailed or quantitative analysis would not change our overall assessment that the design of RIIO-3 in our Final Determinations is in consumers' interests. To demonstrate these impacts at a higher level, in the rest of this section we provide some qualitative assessment.

## Economic growth

4.4 In this section, we examine the expected contribution of RIIO-3 to economic growth. Network companies have forecast substantial expansion in workforce and training. For example:

- NGET's RIIO-ET3 business plan anticipates a 50% increase in its workforce and a significant rise in training days, including in digital and AI-related skills. In its response to our Draft Determinations IA, it sets out that its RIIO-3 investments will support over 100,000 new jobs and add £5bn to UK GDP.

- SPT commissioned independent analysis from the Centre for Energy Policy, which suggests that proactive investment in transmission infrastructure could generate up to £2bn in annual GDP uplift and create over 11,000 jobs.
- SHET's response to our Draft Determinations IA stated that transmission investment in its RIIO-ET3 business plan alone will generate around 37,000 jobs, as well as generate over £15bn of Gross Value Added (GVA) for the UK.

4.5 The TOs' analysis also indicates that early investment yields greater economic benefits than reactive investment, particularly when labour market constraints are addressed.

4.6 It is difficult to attribute the precise size of these growth impacts to our RIIO-3 decisions, and in particular the differences to the counterfactual of an evolved RIIO-2. We consider the impact of investment in GVA and in job creation, but it is not possible to quantify all these effects with precision. However, we recognise that the submissions from the network companies all support the growth benefits of both acceleration and improved certainty in planning network investment, and provide illustrative estimates that suggest that these benefits could be significant, relative to the costs of acceleration.

## Energy security

4.7 Government's energy policy is to move away from a dependence on imported gas to produce power in GB using a range of low-carbon technologies including renewables and nuclear.

4.8 At the same time, the GT and GD systems remain critical for transporting gas where it is needed across GB and supporting electricity system security. The resilience of the network must continue to reflect this.

4.9 This investment in our critical energy infrastructure will shape the system we build for decades to come, helping reduce reliance on imported gas and strengthen our energy security. Acting now will accelerate the shift to renewables, strengthen energy security, create jobs, and help meet government targets - ultimately reducing long-term costs and protecting future generations.

4.10 We have not sought to monetise these security benefits. However, we agree that reducing the exposure to imported gas over time will benefit GB energy security, by reducing the risk of unexpected gaps in availability of gas as an input to the energy system. It will also reduce the greatest current source of volatility in energy prices, through weakening the link between wholesale gas and wholesale electricity prices. Whilst gas prices may go either up or down, there is also a

particular exposure from supply shocks leading to unexpected spikes upwards in the gas price. The value of 'insurance' against such a future shock in gas prices is difficult to measure, but represents an additional benefit from the investments in generation and network supported by our RIIO-3 decisions.

4.11 In addition, increasing investment will support a more resilient network. It will facilitate additional workforce attraction and retention and contribute to improving supply chain resilience. It will also support embedding climate resilience in network operations with actions such as climate scenario planning, stress-testing for high-impact, low-probability hazards, and adaptation pathways. All these would be additional non-quantified benefits associated with RIIO-3.

## Environmental impacts

4.12 RIIO-3 is designed to support the decarbonisation of the electricity system, which is a critical enabler for broader net zero objectives and reduced reliance on gas, including the electrification of transport and heating. The National Energy System Operator (NESO) projects a dramatic reduction in the carbon intensity of electricity generation, from over 140 $gCO_2$/kWh in 2023 to ~15$gCO_2$/kWh by 2030. This shift is attributed to increased deployment of renewables, carbon capture technologies, and flexible grid infrastructure. Our proposals are expected to facilitate this transition by enabling timely and efficient investment in transmission networks, reducing constraint costs and allowing more renewable energy to be dispatched.

### Responses to our approach to environmental impacts

4.13 Some network companies suggested we should provide additional analysis in addition to the NESO analysis of environmental impacts presented in Draft Determination IA. In this section we summarise some of the wider environmental impacts of our RIIO-3 decisions.

4.14 RIIO-3 includes several policies designed to minimise the direct and indirect impacts of network activities on the environment. We have retained both the Environmental Action Plan (EAP) and Annual Environment Report (AER) in RIIO-3, while Business Carbon Footprint BCF) ODI-R reporting moves into the AER.

4.15 We have several mechanisms that aim to reduce emissions from network activities such as common mechanistic Price Control Deliverables (PCD) across ET and GD in RIIO-3 applied to costs associated with Zero Emissions Vehicles (ZEVs).

4.16 Networks facilitate the reduction on greenhouse gas emissions, but it is difficult to assess the net contribution. Given the challenges in directly distinguishing the

size of benefits in our proposed approach from the counterfactual, we have not sought to quantify the direct impact of network investment on carbon emissions. Although the direct quantification of carbon savings is challenging, our view is that the environmental benefits of the move to renewable investment facilitated by RIIO-3 is likely to be substantial.

4.17 In addition, RIIO-3 will support increased biodiversity. RIIO-3 will include unprecedented volumes of new infrastructure build, and we are funding a minimum of 10% Biodiversity Net Gain for each individual project (almost tripling funding from RIIO-2), as well as any other statutory biodiversity requirements required to obtain planning consent.

## Evaluation

4.18 We recognise the importance of robust and proportionate evaluation to assess whether its regulatory interventions are delivering intended outcomes. We have published a new evaluation strategy[7] and commit to developing a monitoring and evaluation framework for RIIO-3 in line with updated guidance. Existing tools such as Regulatory Instructions and Guidance (RIGs), Regulatory Reporting Packs (RRPs), and the Price Control Financial Model (PCFM) will continue to be used to track performance. However, there are several challenges, including the lack of complete data at the time of setting new price controls and the evolving nature of regulatory frameworks, which can limit the usefulness of retrospective evaluations such as these.

### Responses on evaluation

4.19 In our Draft Determinations IA we asked about how we could best evaluate RIIO-3 in line with our new evaluation strategy.[8] We said that:

- At the time of setting new price controls, we do not have some of the key information around the effectiveness of the previous price control, because we need to set the next price control before the current price control is finished. The lack of actual data on the performance of the price control increases the asymmetry of information between us and the network companies.
- Price controls are subject to constant evolution. A full independent evaluation of the most recent completed price control (eg RIIO-1) may not provide useful information to set the next price control (RIIO-3).

[7] https://www.ofgem.gov.uk/guidance/ofgems-evaluation-strategy
[8] Ofgem's Evaluation Strategy | Ofgem

4.20 Stakeholder feedback will be very important in shaping our ongoing approach to evaluation and ensuring transparency and accountability in the monitoring and implementation of RIIO-3. However, we did not get specific recommendations on ex post evaluation. We will continue with our monitoring plans and we will review what type of evaluation is needed and when we should carry out this type of analysis. In addition to regular monitoring, we will review RIIO-3 at the time when we need to decide the regulatory framework for the next price control.

# 5. Impact on network charges and consumers' bills

5.1 In this chapter, we quantify the potential impact of our RIIO-3 Final Determinations on consumers' bills. We show the level of RIIO-3 network charges in comparison to those in RIIO-2. We also illustrate how these changes compare to what we would expect consumers to pay had we broadly continued with a RIIO-2 approach. This 'roll-forward' scenario assumes similar totex and WACC levels to RIIO-2. We also illustrate the net impact on overall energy bills, after accounting for savings elsewhere in the bill that are facilitated by the investments funded by RIIO-3.

5.2 Our central estimate is that network charges are likely to be around £108 higher (by 2030/31) as a result of our RIIO-3 decisions, compared to the 2025/26 baseline. There is a wide range around this estimate, as the benefits are hard to measure and subject to uncertainty. As discussed below, we have also applied a smoothing of revenues. This means that charges will be around £8 higher in 2030/31, ie a potential total increase of £116.

## Our assessment of responses to our draft bill analysis

5.3 National Gas called for reconsideration of the cost recovery base. It highlighted that the proposed totex reduction in our Draft Determinations (compared to its Business Plan) would shorten asset lives and have a material impact on consumers which has not been assessed in the IA. These totex reductions are discussed in the Overview Document and GT Annex. Nevertheless, since Draft Determinations we have increased GT totex funding, and are confident that it is sufficient to protect safety and resilience. We have also included a range of flexible funding tools which will allows us to respond to emerging needs, including risks linked to critical infrastructure.

5.4 SGN criticised our approach of using a constant demand assumption, with no decline in the number of gas users. As discussed below, we have decided not to model a decline in the number of gas users, as this is highly uncertain and any changes in bills from changes to the number of gas users are not directly related to our RIIO decisions. Instead, we include a wider range of sensitivities to our baseline estimation.

5.5 A consumer body suggested that we should look to increase the general understanding of the direction of bills. Energy UK also indicated that clearer reasoning and transparency about our bill impacts was important. We have

expanded our distributional analysis, and will continue to provide evidence on whole bill impacts when looking at future price control decisions and other related policies, including our cost allocation and recovery review. However, as discussed below, there are significant uncertainties, and many of these effects are hard to measure, which is why we have illustrated that there is a wide range for the potential overall effects on consumers.

5.6 Some suppliers submitted concerns about the impact of possible delays in transmission projects and highlighted the potential impacts on balancing costs of delayed infrastructure. Most suppliers also criticised the lack of an impact assessment on supplier business from unexpected increases in transmission charges. We have included sensitivity analysis to possible delays in network investment, and we have a new section covering the impact on suppliers of forecasting uncertainty.

5.7 Several respondents stated that we should more fully cover the impacts on the non-domestic sector. Some of these responses also recommended longer-term and more transparent bill modelling across domestic and non-domestic consumers.

5.8 In response, we provide additional analysis of the bills impact on the non-domestic sector. Our analysis below illustrates that small non-domestic consumers are still expected to face similar bill impacts as domestic ones, but we also provide a more detailed view of the potential effects on other larger non-domestic consumers.

5.9 We acknowledge many of the comments in terms of the coverage and scope of our assessment of the bill impacts of our decisions, and in particular that alternative assumptions could have been made in our assessment. We include a number of additions to our Draft Determinations analysis:

- We have extended our analysis of impacts on the non-domestic sector and on vulnerable consumers. We have also considered the impact of network charging volatility on suppliers, which is discussed further in below.
- Some responses requested longer term views for bill impacts. We think it would require disproportionate effort to provide impacts over 8-10 years or provide adjustments to our demand assumptions, given that RIIO-3 does not cover the end of this period, and the level of investment will be affected by developments in strategic planning. Given the uncertainties and that bill impacts beyond the RIIO-3 period will be primarily driven by future price

control decisions, we have concluded it is better to focus the analysis in this IA on the RIIO-3 price control period.

5.10 In terms of the constant gas demand assumption, we acknowledge there is some uncertainty. We think there is only a weak link between the level of expenditure allowed for GDNs and overall gas demand. For example the capacity of the network is driven by the need for GDNs to meet 1-in-20 peak requirements, rather than overall gas demand.[9] We have maintained our constant demand assumption, as for bills modelling purposes this allows us to illustrate the direct effects of our RIIO-3 decisions. Nevertheless, our RIIO-3 approach recognises that there is ongoing uncertainty around the future use of the gas network. We will continue to monitor the appropriateness of this policy throughout RIIO-3, informed by our continued work with government, and will review our approach ahead of RIIO-4, or earlier if necessary.

5.11 We still maintain that our central scenario is the best view of bill impacts associated with the decisions in RIIO-3. As in the Draft Determination IA, we have explored a number of scenarios covering uncertainty about totex, constraint costs, inflation, interest rates and gas prices. We maintain these scenarios give a robust range of outcomes covering the key uncertainties discussed above.

## Overview of our approach to modelling the impact of RIIO-3 on network charges

5.12 Our Final Determinations will increase network charges in the RIIO-3 period.

5.13 To help understand the effect of our RIIO-3 decisions, we provide a direct comparison of network charges between the end of RIIO-2 and the RIIO-3 period. To capture the costs that we think would have happened regardless of our RIIO-3 proposals, we used a "RIIO-2 roll-forward" scenario. We then project these charges to 2030/31 under the RIIO-2 roll-forward scenario. Finally, we calculate the bill impact of these RIIO-3 proposals.

5.14 As explained in Chapter 4, this "roll-forward" scenario is different to our economic counterfactual, which would also include elements of the increases in totex and WACC in RIIO-3 which would have been reflected in an evolved RIIO-2. Therefore, many of the changes in RIIO-3 may not represent a clear additional cost relative to the counterfactual that we set out in Chapter 4. For example:

[9] A more detailed explanation can be found in the Ongoing Efficiency section of the Overview document.

- The increases in totex result from allowing TOs to make additional investments. We expect that many of these investments would have been approved under an evolved RIIO-2 approach.
- Bills are higher because of an increase in the WACC. Under an evolved RIIO-2 approach, we would still have allowed a higher WACC to capture changes in market conditions.
- Some of the changes, such as to depreciation, increase bills in RIIO-3, but are neutral from an economic perspective as they are NPV-neutral transfers between current and future consumers.

5.15 In the breakdown below, we have disaggregated the effects to illustrate the most important changes to network charges.

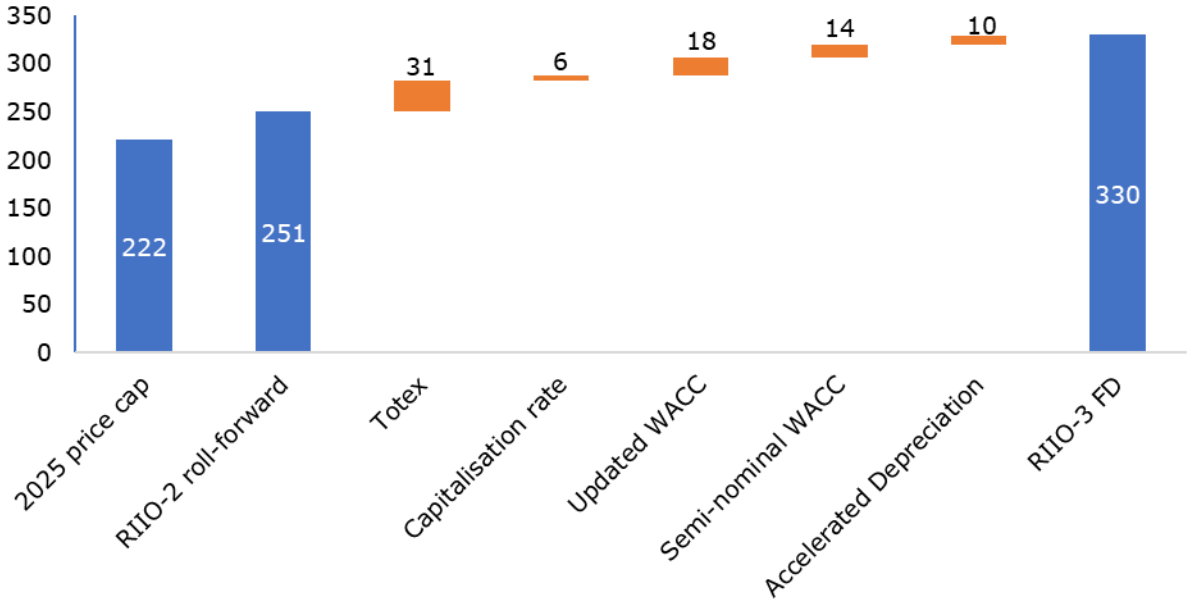
## Network costs impact on bills

5.16 Table 2 below provides indicative figures for the likely network charge impacts of the policy changes proposed for RIIO-3. Based on current projections for ET investments it shows that, overall network charges could increase from **£222** in 2025/26 to **£330** by the end of RIIO-3 (2030/2031), a rise of **£108**. The majority of the increase **(£79)** is due to the RIIO-3 decisions. The remainder **(£29)** would have happened in any case if we had rolled forward RIIO-2 assumptions. The largest effects of the RIIO-3 decisions are the increases in totex and WACC.

Table 2: Breakdown of total changes in network charges to 2030/31, by sector (before profiling)

| Scenario | ET | GD | GT | Total |
|---|---|---|---|---|
| **Today's charges (using average 25/26 price cap prices)** | **44** | **165** | **13** | **222** |
| 2030/31 RIIO-2 roll-forward (assuming the same totex, WACC, cap rate, and depreciation methodology as in the final year of RIIO-2) | 59 | 177 | 14 | 251 |
| **(Difference - 2030/31 RIIO-2 roll-forward vs. average 25/26 price cap prices)** | **15** | **13** | **1** | **29** |
| **(Difference - 2030/31 RIIO-3 vs. RIIO-2 roll-forward): breakdown below** | **45** | **32** | **1** | **79** |
| 1. Higher RIIO-3 totex | 24 | 8 | 0 | 31 |
| 2. Lower capitalisation rate | 6 | - | - | 6 |
| 3. Higher WACC | 9 | 9 | 1 | 18 |
| 4. Semi-nominal WACC | 7 | 6 | 1 | 14 |
| 5. Accelerated depreciation in GD | - | 10 | - | 10 |
| **2030/31 charges under RIIO-3 recommendations** | **104** | **209** | **16** | **330** |

Figure 4: Network charges for a dual fuel household with average energy use in 2030/31. 2025/26 prices, pre-profiling.




5.17 We expect these costs to be offset by savings in constraint and wholesale costs (our approach is described in the next section), and the benefits that we have not monetised in this IA, including wider economic benefits and contribution to lower carbon emissions.

## Whole bill effects of our RIIO-3 proposals

5.18 Our RIIO-3 Final Determination decisions are intended to deliver a range of direct and indirect benefits to consumers. In this section, we illustrate the bill effects of these benefits in the RIIO-3 period, with a focus on two direct benefits. The two areas of offsetting bill reductions are:

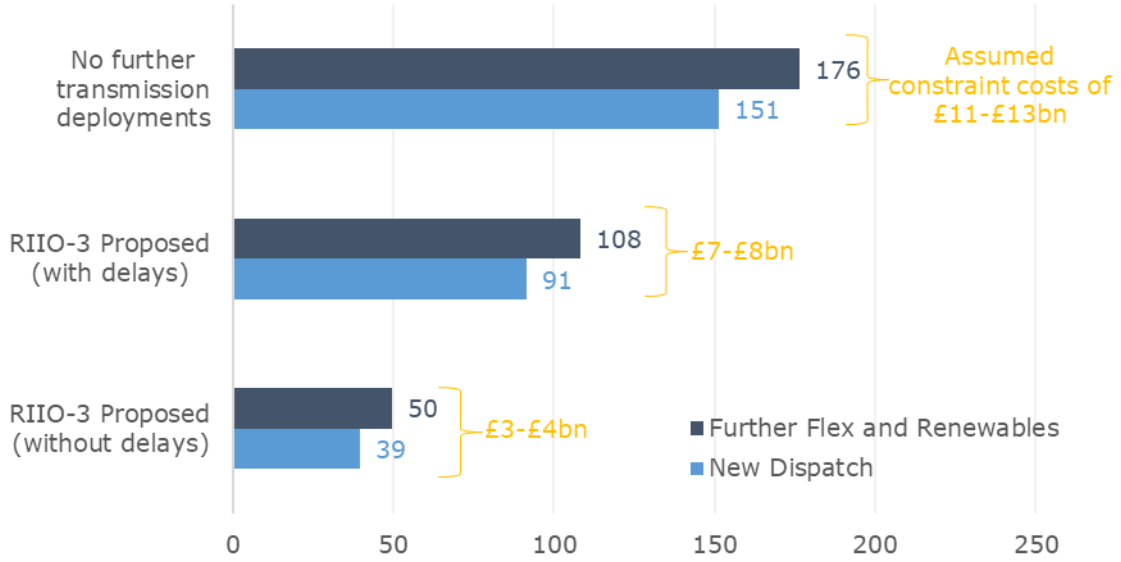
- the impact of RIIO-3 investment on balancing costs, particularly through reducing, or avoiding increases in, constraint costs; and
- the impact on wholesale prices, where RIIO-3 investment supports the connection of fixed-cost renewable generation, which will reduce despatch costs.

5.19 Both of these are hard to measure, but we can illustrate their potential impact using a combination of established NESO analysis, assumptions from our internal analysis and published sources. We first provide an indicative calculation of the overall RIIO-3 bill impacts, followed by sensitivities to that calculation.

### Projected balancing costs – with and without RIIO-3 investment

5.20 NESO has projected balancing costs[10] to be two to four times higher in their no expansion scenarios, where the investments supported by our RIIO-3 decisions are not made and so less network is available for renewable generation to connect to the grid and to end consumers. We set out the impact of balancing system use of system (BSUoS) charges in Figure 5.

Figure 5: BSUoS charges for an average dual fuel consumer in 2030/31 (£2025/26 prices)




5.21 The NESO's modelling shows that there are significant uncertainties around this projection. The actual level of constraints will depend on a number of factors, relating to the place and pace of renewables investment, the detailed design and pace of delivery of network investment, and the cost and availability of alternative flexible dispatchable generation. The NESO has estimated that if the network were not expanded, then balancing costs could be around £8bn higher per annum than its CP2030 case. We estimate that this translates to around an additional £100 per customer per annum.

5.22 However, under a scenario where totex was kept down to RIIO-2 levels, this would still be sufficient to connect some of the new generation to the network that would otherwise be constrained. Therefore the bill effect of the increase in constraints might not be as high as £100 per annum. We have thus used NESO's intermediate estimates without further acceleration as an indicator of scale of the benefits of the higher RIIO-3 totex levels. Using this scenario, we consider that a

[10] BSUoS Fixed Tariff 5 and Draft Tariff 6 Webinar

base case assumption of £4bn of avoided constraint costs, equivalent to around £55 saving per average energy use domestic consumer, is an appropriate starting point for the bills impact of constraints associated with the higher totex in RIIO-3.

5.23 In practice the link between ET investment and constraints is complex as much of the ET investment is necessary for other reasons, including to maintain the performance standards of the network, ie it could not be avoided just because it does not directly affect constraints. However, on balance, we think that this reflects a realistic alternative scenario for the change in constraints linked to our decisions to increase investment above RIIO-2 levels including by supporting acceleration of that investment.

### Projected wholesale costs – with and without RIIO-3 investment

5.24 In addition to avoided constraint costs, the network investment funded by RIIO-3 should reduce the costs of operating the wholesale market, increasing the amount of renewables able to access the transmission network and ultimately to reach electricity demand. This should have wider benefits for consumers as it will reduce the marginal price in the wholesale market. The mechanism by which customers benefit can be summarised as:

- The wholesale market sets the price based on the cost of the marginal generator needed to ensure that the system is in balance. Currently this is normally gas, and therefore the market cost is linked to the additional resource cost of procuring gas for generation.
- Increasing renewable penetration will significantly increase the proportion of time when there is enough renewable energy to meet demand. The marginal cost of renewable generation is close to zero, helping to reduce wholesale prices.
- Since the marginal generator sets the price for the wholesale market, this reduces the wholesale price for all electricity generated, and therefore customers benefit from these lower prices through lower wholesale prices.
- For renewable generation which has contracts for difference (CfDs), this lower wholesale price is directly offset by higher CfD costs. However, we still estimate that no more than around 50% of generation will be on CfDs by 2030, so there will still be significant net benefits to end consumers from lower wholesale prices.

5.25 In its CP2030 publication, the NESO estimated the effects for two pathways depending on the level of dispatchable low carbon generation, with the average of

these having gas setting the price around 30% of the time. This 30% proportion is also consistent with our recent review of data from sector analysts.

5.26 We therefore assume in our central scenario that gas sets the price around 30% of the time, reducing the wholesale electricity price from today's levels. Currently, the wholesale gas price sets the wholesale electricity price over 90% of the time. In our "RIIO-2 roll-forward" scenario, where there is no increase in totex from RIIO-2, and most new capital investment is deferred beyond RIIO-3, we estimate that gas will continue to set the wholesale price over 70% of the time.

5.27 To estimate the effects of increased renewable generation on the wholesale electricity price, we need to project the wholesale gas price. There are no single consensus forecasts for wholesale gas costs, and the projections differ widely. However, we have to use a single forecast for our central projection. We use a projected wholesale gas price reduction, based on market consensus views on the most likely direction for gas prices, which is that they will fall from where they are today, which are still relatively high by historic levels. Government's fuel price assumptions project wholesale gas prices in 2030/31 of £27 per MWh which translates into a 25% drop compared to the price cap's average 2025/26 wholesale gas allowance. However, gas prices might stay close to today's levels, or even go up. We consider a number of scenarios in our sensitivities assessment below, and our central assumption is based on an Aurora forecast of around 5% gas price reduction, so between today's levels and government published projections.

5.28 The benefits of removing gas from the system are higher in scenarios where the wholesale gas price is higher. In the case of a 25% reduction in gas prices, the benefits are around £10 per annum on a domestic bill (lower wholesale prices, net of the expected offsetting effect of CfDs). As described in our sensitivities below, if gas prices increased to £50 per MWh, the benefit would be more than quadruple this. In other words, when savings are most needed as underlying bills are higher, the investments funded by RIIO-3 will deliver greater benefits.

## Revenue adjustments

5.29 Ensuring stability and predictability in future network charges is essential to protecting market stability, particularly in the retail sector for suppliers with large non-domestic customer bases on fixed contracts (see paragraph 5.68). We have listened carefully to industry responses to our Draft Determinations and taken additional steps to smooth the increase in network charges over the RIIO-3

period. This will protect the critical investment needed but help reduce the scale of the immediate step up in network charges faced from April 2026.

5.30 We discuss the responses relating to the impact on suppliers in detail in a separate section from paragraph 5.68 below.

5.31 Compared to Draft Determinations, we have decided to profiling revenues to create a smoother path of increases over RIIO-3. Figures 1 and 3 above illustrate that there is a sharp 'one-off' increase in network costs in 26/27, followed by a smoother increase in revenues during the rest of RIIO-3. This reflects a number a changes to the detailed calibration of the price control, such as the move to a semi-nominal WACC. It also reflects that we are assuming higher totex in RIIO-3, both in terms of baseline for the gas networks, and, for ET, significantly higher investments through re-openers.

5.32 For ET, we have moderated some of the increase in 2026/27 by a review of the profile of projected totex under re-openers. Since Draft Determinations we have worked with the TOs and the NESO and we have made some changes to more effectively predict their profile across RIIO-3. This means we now forecast that totex will increase more gradually across 2026/27 and 2027/28. This means that we see a smoother rise in revenues across these years, although the increase is still over 50% between 2025/26 and 2026/27.

5.33 In gas, we continue to see more of a "one-off" increase in costs in 2026/27. This increase is now larger than at Draft Determinations, due to higher totex and an increase in business rates.[11] This is in addition to the higher financing costs that are due to the higher WACC and the move to a semi-nominal WACC.

5.34 Taken together, there is a sharp increase in bills for all customers in 2026/27. The scale of the increase was strongly criticised by many suppliers because of the impact on their costs in servicing fixed contracts. We discuss this further in 5.68 below. The size of increase could also adversely impact domestic consumers, since it is likely that these cost increases will be in advance of any benefit from a reduction in wholesale costs.

5.35 Having reflected further on the profile of cost increases, we have decided to 'smooth' the impact of the anticipated increase in 2026/27 charges across RIIO-3. We have reduced revenues in 2026/27 by £574m, and by a smaller amount (£92m) in 2027/28, with offsetting increases in the later years in the period. A WACC uplift is included in the amounts paid back in years 4 and 5 of RIIO-3.

[11] Networks have forecast an increase in business rates of ~20-50% (£10-50m per year)

Given that the WACC is very close to the assumed consumers' preference rate for the time value of money under Green Book principles (3.5% in real terms), both consumers and network companies should be broadly neutral between the profile of revenues before and after profiling.

5.36 This intervention does not affect the tax allowance or the net debt of the notional companies (meaning no impact on equity issuance). Whilst there is an interest cost of the deferral of revenues, it is small (~£2 per domestic customer). From the perspective of economic appraisal, we should compare this against the notional consumer's time value of money. which is very close to the WACC. Profiling should therefore be broadly cost-neutral for customers and network companies.

Table 3: Profiling effects

| Period | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|---|---|---|---|---|---|---|
| ET charges (pre-profiling) | 44 | 68 | 83 | 95 | 100 | 104 |
| GD charges (pre-profiling) | 165 | 191 | 195 | 200 | 205 | 209 |
| GT charges (pre-profiling) | 13 | 15 | 15 | 16 | 15 | 16 |
| Final Determination (pre-profiling) | 222 | 273 | 293 | 311 | 321 | 330 |
| ET profiling effect | | -3 | 0 | 1 | 1 | 1 |
| GD &GT profiling effect | | -8 | -3 | 1 | 4 | 7 |
| Total profiling effect | | -11 | -3 | 2 | 5 | 8 |
| FD (actual) | 222 | 262 | 291 | 313 | 326 | 338 |
| Annual change | | 40 | 29 | 22 | 13 | 12 |

5.37 Paragraph 5.68 onwards discusses in more depth the potential impacts on suppliers, including how this is mitigated by these decisions to profile revenues over the RIIO-3 period.

## Summary of our bills assessment

5.38 Overall, our bills assessment shows:

- Higher network costs will increase bills by around £108 by the end of RIIO-3; of which around £79 relate to decisions in these RIIO-3 proposals, with the remainder being the ongoing effect of RIIO-2 decisions.
- We have smoothed network charges by moving £14 from the first two years of the price control and recovering them in the last two years (including an extra £2 in interests to reflect the time value of money), which reduces the bill increase in 2026/27 and 2027/28, but increases it in 2029/30 and 2030/31.

5.39 These bill increases will support the electrification of the power system, in line with government's CP2030 plans and the wider transition to net zero, and ensure that the gas networks can meet the costs of delivering a safe and secure gas system.

5.40 However, these investments will also directly result in lower electricity bills during RIIO-3. Our point estimate, discussed further below, is that they will contribute to £80 lower constraint and wholesale costs than in the counterfactual where these investments did not happen at the pace and using the additional mechanisms proposed for the RIIO-3 period.

5.41 Higher ET network charges will also increase standing charges, our current projection is that standing charges for ET will increase likely from around **£42** today to **£62** by April 2026, and **£101** by 2031 (including reprofiling). On the other hand, the savings from avoided constraint costs and lower wholesale prices will be reflected in the unit rate. Given this and other changes to the mix of the energy bill, we will assess whether to rebalance the mix of standing charge and unit rates as part of our review of cost allocation and recovery.

5.42 In the next section, we consider sensitivities around these estimates, and analysis of the whole bill effects of our decisions.

### Sensitivities to our bill projections

5.43 In this section we present the primary sensitivities to the bill projections, which are sensitivities:

- To the level of RIIO-3 network charge increases, relating to elements of the price control calculation that are subject to change during the period. We show the impact on RIIO-3 charges of higher or lower supply chain cost inflation, and the impact of higher or lower interest rates.
- To the wholesale price benefits from connecting renewables into the system: if wholesale gas prices are higher or lower than our base case projections, then the benefits of moving from gas to electricity will also be higher or lower.
- To the level of reductions in balancing costs, including constraint costs. NESO has provided a wide range for the level of balancing cost reductions. Ultimately, this is hard to predict with any certainty, but we illustrate the sensitivity of greater or lower balancing cost reductions, including if there are delays to the implementation of some of the proposed RIIO-3 investments.

5.44 For totex, there is uncertainty over the rate of supply chain cost inflation. We have already assumed significant levels of cost inflation and, based on the information gathered during the RIIO-3 process, our projections assume that some of this cost pressure will continue. As a result, whilst we assume that cost inflation could accelerate further, it is also possible that initiatives to develop additional capacity could have the effect of reducing costs from current high levels. In our assessment below, we illustrate the effects of 10% higher or lower ET aggregate totex. Since the majority of GD totex is set ex ante, and the effect of changes in GT costs is reasonably small, we do not include sensitivities for gas totex.

5.45 In respect of the financial framework, most parameters are set up front. However, the risk-free rate is indexed and therefore the WACC may go up and down in line with government debt yields, which are affected by both international bond markets and domestic market conditions. Over the RIIO-3 period, our scenarios use an average **WACC of 4.0% to 5.1% for ET, and 4.1% to 4.7% for GD and GT.** The wider WACC range for ET reflects how its WACC methodology places a larger weight on more recent time periods compared to the methodology for gas. These WACC figures exclude the adjustment for inflation from the semi-nominal approach we have introduced in RIIO-3.

5.46 Our projections of lower balancing costs are based on NESO's CP2030 modelling, and as acknowledged by NESO, these are fundamentally uncertain. They could be higher or lower either because of the pace and effectiveness of roll-out, or because of unexpected developments in the wholesale and balancing markets. While the **£55** projected benefits may change for many reasons unrelated to RIIO-3, we have focussed in our sensitivity analysis on the potential for these to change due to the pace of delivery of RIIO-3. We use a sensitivity where slower delivery by two years of key projects reduces the balancing cost benefits by around 50% compared to our base case.

5.47 The wholesale price projections are also uncertain. We have looked at market projections, which show a wide range of potential wholesale gas prices:

- Market forecast scenarios: Gas prices continue to fall back. This scenario is predicted by a number of external commentators, but is also subject to uncertainty; both whether prices decline, and if so, how much.
- High gas price scenario: Gas prices rise again to £50/MWh (40% above current levels, and 20% above 25/26 peak levels) due to unexpected supply challenges.

5.48 Table 4 illustrates the range of potential net effects on average energy use consumer bills in 2030/31 as a result of our RIIO-3 proposals after considering these sensitivities. Although we have a wide range, we have used a point estimate in our overview of the effects of RIIO-3 of **£80 benefits**, offset by around **£110** charges, ie a net increase of around **£30**. The **£80** is consistent with the central case from NESO's balancing costs, and a point estimate around the middle of the range of wholesale price reductions.

Table 4: Scenario analysis.

| Scenarios | Bill component | Additional costs from proposals | Comments |
|---|---|---|---|
| Cost inflation | ET | £18 to £29 (£24 central) | As discussed in the ET Annex, most of the ET totex is to be determined through uncertainty mechanisms and therefore is subject to uncertainty over supply chain outcomes. This means that allowed totex may be higher/lower than current projections. |
| Interest rates | ET | £9 to £24 (£15 central) | As discussed in our finance annex, cost of debt and equity are indexed to government debt and corporate bond rates. The level of these indices will be affected by broader macroeconomic conditions. |
| Interest rates | GD | £11 to £29 (£15 central) | n/a |
| Interest rates | GT | £1 to £2 (£1.5 central) | n/a |
| Constraint cost | Balancing costs (BSUoS) | -£55 (central) to -£30 (with delays) | Depends on pace of generation build, demand trends and wider wholesale market conditions. Delays in delivery of some network build could result in lower savings. Higher savings are feasible as illustrated by NESO's wide range of scenarios, but would be likely to be due to market factors outside of RIIO-3. |
| Gas prices | Wholesale electricity (incl. CfDs) | -£40 to -£10 (-£20 central) | Wholesale gas prices are largely driven by international demand and supply dynamics and are therefore uncertain. In our RIIO-3 proposed scenario, wholesale electricity prices are less affected by gas because gas sets the price less frequently. As a result, the higher the future gas price, the greater the implied benefits of the RIIO-3 proposals. |
| All | Total bill changes | -£20 to £80 | The impacts of our RIIO-3 proposals on bills are highly uncertain; they depend on hard-to-predict factors such as future gas, constraint, material, and interest rate costs. Our central estimate is a small net increase in bills over the RIIO-3 period compared to the alternative of delaying investment, but the actual effect could be a net benefit or a greater net cost. |

## Distributional impacts

5.49 Network price control decisions do not have direct distributional impacts on domestic consumers in the sense that the costs and benefits of price controls are applied evenly across consumers. In our Draft Determinations IA, we did not include any distributional analysis. SPT and SGN commented on the lack of distributional impacts in our previous Draft Determination IA. We have decided to include distributional impacts in this final IA, for the reasons set out below.

5.50 SPT and SGN recommended that we assess distributional impacts, stating that we need to review the potential distributional impact of a reduction in the number of gas consumers, which would mean that the cost of maintaining the gas network would be spread to fewer consumers. A reduction in the number of gas consumers could be a considerable challenge in future, and is one driver of our decision to introduce some accelerated depreciation of new gas assets in RIIO-3. At this stage, the distributional impacts of a future decline in the number of gas consumers are highly uncertain. The pace and distributional mix of the electrification of heat is likely to be driven by government decisions on support for consumers in making that change, including the Boiler Upgrade Scheme. As a result, any analysis of these distributional impacts would require too many assumptions to be reliable in making an assessment of their impact in RIIO-3. These effects are likely to be both more measurable and more important for remaining gas consumers in the next price control.

5.51 As a result, we have focused on the direct distributional effects of our RIIO-3 decisions. In this section we provide high-level quantitative analysis of how the change in household bills differ between types of consumers. We present this analysis with reference to the statutory groups of consumers that we must have regard to when making decisions, ie:

- low income households;
- consumers with disability/chronic illness;
- consumers of pensionable age; and
- households in rural areas.

5.52 Network price controls set the tools and mechanism to ensure allowed revenues for network companies are sufficient to guarantee all the investment needed in the next five years and are set efficiently. Network companies' allowed revenues are recovered through network charges, which are in turn recovered through consumer bills based on network charging rules and suppliers' approach to tariff design. The distributional impact of these Final Determinations is therefore

primarily determined through separate policies, related to charging and tariffs. . We do not assess options for tariff design as part of the distributional impact in this IA as they are not considered to be part of the RIIO-3 process. For example, decisions on the balance between standing charges and unit costs are outside the scope of this IA.

5.53 Distributional impact is not a key consideration in setting price controls, as the size of average changes to network charges does not materially affect the relative size of the effect on different customer groups. However, in considering the impacts of our decisions we have used our distributional framework[12] to provide a view of the scale of impacts of bill changes resulting from higher network charges on different types of consumer. We include in this section some high-level analysis of distributional analysis of the size of bills impacts on standing charges and unit cost associated with network charges. We set this out for electricity and gas consumers separately below.

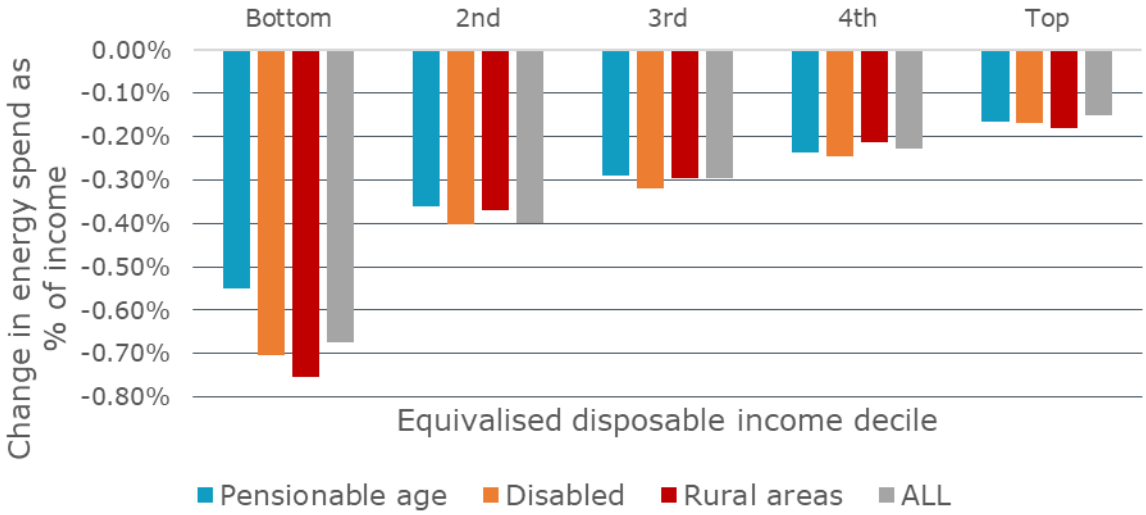
5.54 For electricity, transmission network companies' allowed revenues (as determined through the price control) are largely recovered through the standing charge element of suppliers' tariffs, and so in the analysis in this section we have assumed that all consumers would see a very similar rise in tariff. For gas, network company revenue is recovered through the unit rate.

### Distributional impacts for domestic electricity consumers

5.55 Electricity consumers are likely to experience an increase of £62 per household by 2030/31 compared to 2025/26 costs. As expected, people in the lowest income quintile (20%) will be relatively more affected by the increase in network charges. For the poorest households in rural areas and people with disabilities this increase represents 0.75% and 0.70% of their disposable income respectively.

[12] Assessing the Distributional Impact of Economic Regulation

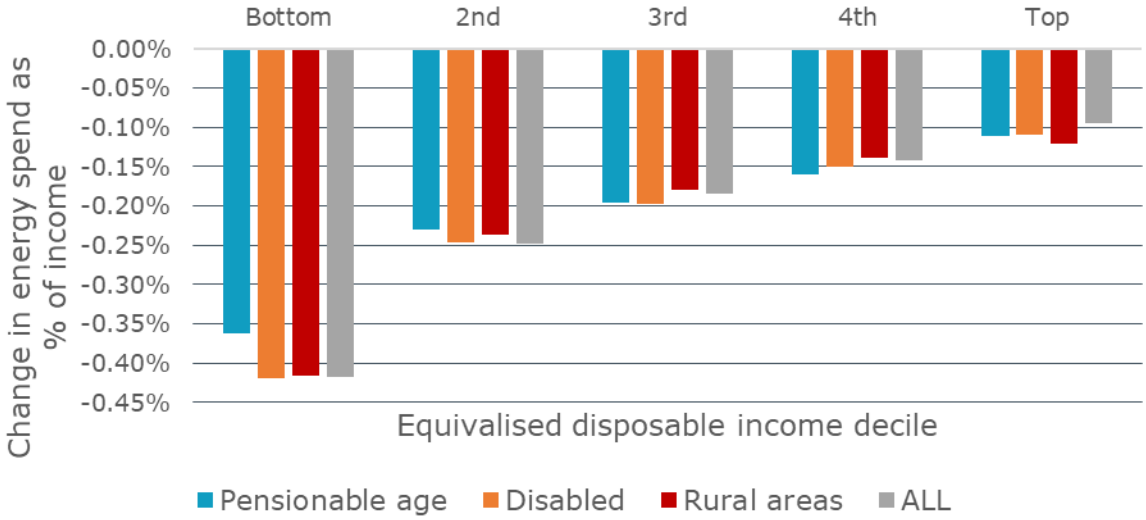
Figure 6: Impact of an increase in electricity network costs on disposable income, by income quintile




## Distributional Impacts for domestic gas consumers

5.56 Gas consumers would experience an increase of £54 compared to 2025/26 costs. Gas consumers in the lowest income quintile (20%) are the most affected by the increase in network charges. The poorest 20% households in rural areas and people with disabilities will experience a reduction of 0.42% of their income respectively as a result of increase in gas costs.

Figure 7: Impact of an increase in gas network charges on disposable income, by income quintile




## Impact on non-domestic consumers

5.57 Our bills assessment above is focused on domestic consumers. In this section we provide analysis of the effect on non-domestic consumers, primarily businesses. This analysis has been updated and expanded since our Draft Determinations IA.

5.58 This is in part to reflect submissions from stakeholders on our Draft Determinations IA. Several stakeholders raised concerns about our approach to estimating the impacts on non-domestic consumers in our Draft Determinations IA. SHET and four other respondents recommended that we include analysis of the impact on non-domestic consumers. Supply companies raised concerns that this meant our Draft Determinations IA had excluded potentially large impacts on non-domestic suppliers with long fixed-term contracts. These contracts could be affected by the difference between network charges forecast by NESO and those included in our Draft Determination proposals. We also heard these concerns from other suppliers in our engagement post Draft Determinations. We agree that it is important to investigate the impact on non-domestic consumers and set out further analysis in this section.

5.59 There is no 'typical' non-domestic consumer. The effect of RIIO-3 varies significantly between non-domestic consumer types, due to differences in charging structures and wide variations in usage volumes:

- For the smallest non-domestic consumers, we would expect similar scale of effects to domestic consumers.
- For the largest users, RIIO-3 is expected to result in benefits for the largest users, particularly for Energy Intensive Industries (EIIs) that benefit from the government's supercharger mechanism.[13]

5.60 We set out this analysis on the smallest and largest users in turn below. For other non-domestic users, the net effects will depend on the type of charges that they pay (some pay more transmission costs than others), and their usage volumes.

### Smaller non-domestic consumers

5.61 At a high level, the net bill impact of RIIO-3 should be relatively small as a share of total energy costs for the majority of non-domestic consumers, assuming similar projected RIIO-3 effects to domestic consumers, of avoiding balancing costs and reducing wholesale bills. We estimate above that the effect on bills of RIIO-3 investments compared to the "RIIO-2 roll-forward" scenario is around 1% of a typical bill. We would expect a similar scale of effect for most businesses that have relatively small energy consumption.

[13] The Supercharger is a government scheme that includes a series of targeted measures to bring energy costs for key industries in line with other major economies, levelling the playing field for UK businesses.

5.62 To test this assumption, we have collected information from NESO's August 2025 forecast of Transmission Network Use of System (TNUoS) related charges. First, we calculated the total amount of network revenue collected by the non-domestic demand residual. This is the most important part of transmission charges. We allocated this revenue to each consumption band.[14] We then compared the difference in these charges from the same RIIO counterfactual we use for domestic consumers. We use the roll-forward scenario as the counterfactual and compared it to the unprofiled and profiled scenarios. For micro businesses (LVN1), whose consumption is similar to domestic consumers, the impact of these changes is around £60 higher than the counterfactual in 2030/31. This is similar to the impact of network charges in domestic consumers (we estimate an impact of £65 for a domestic electricity consumer). We therefore assume that the full impact to non-domestic consumers in the Low Voltage bands (LVN1 - LV4) will be broadly proportional to domestic consumers as higher network charges would be proportionately offset by lower wholesale and constraint costs. For high voltage (HV1 – HV3) bands, network charges should be as they are detailed in Table 5 but there are also other influences that we consider below.

Table 5:Non-Domestic Impacts by Consumption Band in 2030/31 (Network Charges, Wholesale and BSUoS costs)

| Band | Volumes (TWh) | Site count | Difference from counterfactual 2030/31 £/yr. | Wholesale £/yr | BSUoS £/yr |
|---|---|---|---|---|---|
| LVN1 | 3 | 863,950 | 70 | -40 | -30 |
| LVN2 | 7 | 647,962 | 190 | -120 | -80 |
| LVN3 | 8 | 323,981 | 400 | -270 | -170 |
| LVN4 | 21 | 323,981 | 1,120 | -730 | -480 |
| LV1 | 9 | 86,151 | 1,790 | -1,180 | -760 |
| LV2 | 13 | 64,613 | 3,550 | -2,330 | -1,510 |
| LV3 | 8 | 32,307 | 4,440 | -2,910 | -1,890 |
| LV4 | 22 | 32,307 | 11,880 | -7,790 | -5,060 |
| HV1 | 5 | 8,708 | 9,760 | -6,400 | -4,160 |
| HV2 | 14 | 6,531 | 36,450 | -23,910 | -15,540 |
| HV3 | 11 | 3,289 | 57,630 | -37,800 | -24,560 |
| HV4 | 31 | 3,281 | 165,320 | -108,440 | -70,470 |
| EHV1 | 2 | 377 | 96,280 | -63,160 | -41,040 |
| EHV2 | 6 | 285 | 343,720 | -225,460 | -146,520 |
| EHV3 | 6 | 141 | 721,720 | -473,400 | -307,650 |

[14] We use data published by NESO. Public 5-Year TNUoS Tariff Report Tables - Aug25

| Band | Volumes (TWh) | Site count | Difference from counterfactual 2030/31 £/yr. | Wholesale £/yr | BSUoS £/yr |
|---|---|---|---|---|---|
| EHV4 | 13 | 141 | 1,643,750 | -1,078,180 | -700,690 |
| Unmetered | 2 | n/a | n/a | n/a | n/a |
| T-Demand1 | 1 | 36 | 288,360 | -189,150 | -122,920 |
| T-Demand2 | 1 | 22 | 937,420 | -614,880 | -399,600 |
| T-Demand3 | 2 | 17 | 2,406,870 | -1,578,730 | -1,025,990 |
| T-Demand4 | 2 | 6 | 5,341,000 | -3,503,310 | -2,276,730 |

5.63 We also acknowledge that there are variations within non-domestic bands and provide some examples below. For example, a small business such as a holiday let, domestic-based office, or retail kiosks that has demand typical for the 1st Band (0–3,571 kWh) would see an increase in network charges of £60 per year by 2031 relative to their cost in 2025/26. Businesses such as small hotels, small offices, small schools, independent retailers in LV1 Band (0–80 kVA) with Maximum Import Capacity (MIC) and typical demand will see an increase of £1,700 per year. Medium factories, colleges, and large offices in band HV1 with typical demand for that band will see an increase of £9,760 per year.

5.64 Whilst these increases may be seen as significant for some non-domestic customers, our overall assessment of RIIO-3 is the same as for domestic consumers: that customers will still benefit as these increases in electricity network charges will be offset by the avoided increases in constraint costs and the projected reduction in wholesale prices.

5.65 For example, if we assign the proportion of BSUoS and wholesale cost savings (See sensitivity analysis in Table 4) using consumption bands. Savings would represent £70 for a typical business in the LVN1 band (£40 and £30 per year in BSUoS and wholesale costs respectively. When we add these savings to the additional network charges, small business could see no additional cost by 2030/31 compared to a scenario without RIIO-3 investments. Table 5 shows our calculations of these savings for each consumption band based on the same assumptions for wholesale and BSUoS changes that we have made in the domestic sector.

### Large non-domestic consumers

5.66 We can be more confident about the effects on the largest consumers: energy intensive industries (EIIs) as there is more readily available data on their electricity usage. EIIs do relatively well out of RIIO-3 investments, especially if

they are captured by the supercharger. We maintain the same analysis that we presented in the Draft Determination IA:

- Under RIIO-3, ET is currently a relatively small share of bills for EIIs. We estimate that ET costs will increase from around 2% of the bill to around 9%. Balancing costs (including constraints) will rise from around 8% to around 12%. Under our RIIO-2 roll-forward scenario, we estimate that constraints would be much higher at well over 20% of bills, and so total network costs (balancing and transmission) would be higher.
- We also project wholesale prices will be lower under RIIO-3, and wholesale prices are by far the largest contributor to EII costs. Our scenarios above illustrate there is a wider range of benefits, and they are highest when gas prices are highest. However, in the central case, we expect RIIO-3 to reduce wholesale costs by around 20%.
- EIIs with the supercharger also benefit most as they are exempt from policy costs. This means that these EIIs retain all the benefits of lower wholesale prices, which are offset by higher CfD top-ups for other consumers.

5.67 In combination this means that, based on our central case for wholesale gas prices:

- EIIs' bills without the supercharger are around 10% lower than the RIIO-2 roll-forward scenario.
- EIIs with the supercharger are around 15% lower than the RIIO-2 roll-forward scenario. The effect is greater because they do not pay offsetting CFD costs. Also, these EIIs have a lower proportion of network costs so the increase is smaller
- If they have the same volume, the benefits are also bigger for Energy Intensive Industries (EIIs) on High Voltage HV connection (rather than Extra High Voltage EHV), as they pay less transmission costs but still benefit from lower wholesale prices.

## Impact on suppliers

5.68 Six respondents to our Draft Determinations IA said that the increase in network costs as set out in our Draft Determinations will impact non-domestic supplier pricing. Some responses raised concerns about the lack of a detailed impact assessment on non-domestic bills, and highlighted that the planned increase in RIIO-3 investment has already impacted non-domestic supplier pricing. In the

previous section we have expanded our analysis of the effects on non-domestic consumers.

5.69 The other key areas of concern related to network charge forecasting and the impact of changes between NESO forecasts prior to Draft Determination and the projections in our Draft Determination IA. Many electricity suppliers use the NESO Transmission Use of System (TNUoS) charging forecast to inform the setting of fixed-term electricity tariffs. Concern was highlighted that these NESO forecasts had not captured the significant increase in RIIO-3 investment, exposing suppliers' existing fixed-term contracts (especially for non-domestics) to the step change in network charges when RIIO-3 starts.

5.70 Some suppliers also indicated that this difference could create financial risks for suppliers, given that they have entered into fixed-term contracts that have already been estimated based on the NESO's estimate and agreed with non-domestic consumers. One supplier estimated additional costs of over £500m.

### Our assessment of the effects of forecasting uncertainty

5.71 As a starting point, it is correct that there were differences between Ofgem's RIIO-3 Draft Determinations IA and NESO forecasts. However, this is not in itself a surprise: we note that NESO's April 2025 forecast indicated a large number of uncertainties. NESO shared these views in widely attended workshops,[15] including with most energy suppliers. Therefore, in principle, suppliers should recognise that NESO's forecast of transmission charges had a wide range of uncertainty. NESO was also clear that revenues were adjusted for inflation, and not based on a detailed analysis of Ofgem's likely RIIO-3 decisions, eg not using information already available to the market in published Business Plans.[16]

5.72 Additionally, the NESO annual forecasts are normally subject to a large amount of variation. The NESO estimates an error margin of 31.4%. The increase in the 5-year forecast from April 2025 to August 2025 by the NESO was 83%, larger than the historical variation. This happened because the NESO was only adjusting the previous forecast to inflation, without updating for the large increase in investment required in wider government plans. This was explained in NESO's workshops.[17] It should therefore have been clear to suppliers that they were facing some uncertainty. Suppliers should also have been already aware of the

[15] See events at Transmission Network Use of System (TNUoS) Charges | National Energy System Operator
[16] See for example: National Grid RIIO-T3 Business Plan
[17] PUBLIC - April Forecast TNUoS Tariffs for 2026-27 Webinar Q&A Published v2.pdf

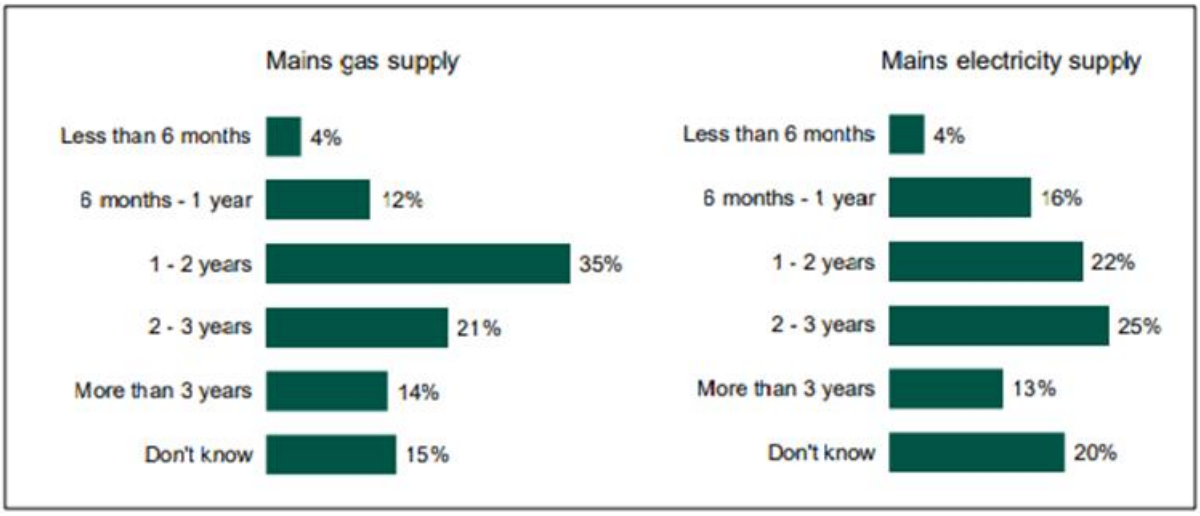
plans for significant increases in transmission expenditure under CP2030, and the Future Energy Scenarios published by NESO.

5.73 Nevertheless, while we consider that it was for non-domestic suppliers to make commercial decisions based on this information, we recognise that this uncertainty did exist and made those decisions challenging. In this section we have illustrated the potential size of the impact on non-domestic suppliers arising from this uncertainty in transmission charge forecasts.

5.74 In order to estimate the possible impact on suppliers, we analysed three different lengths of fixed tariffs (2 years, 3 years, and 5 years) and modelled the percentage impact on network charges.

5.75 First, we estimate the percentage of existing fixed tariffs based on our latest survey of suppliers (See Figure 6)

Figure 6: Distribution of Fixed contracts in the non-domestic sector.[18]




5.76 Then to estimate the impact on suppliers, we have to make a number of assumptions:

- What proportion of contracts were entered into during the period between NESO's (lower) projections, transmission companies' (higher) business plans and Ofgem's (higher) Draft Determination?
- What size of impact could we assume for a reasonable non-domestic supplier on those contracts?
- Given the mix of shorter and longer-term contracts in the market, how does this translate to an overall impact on non-domestic supplier finances?

[18] Non-domestic 2023 research report | Ofgem.

5.77 To estimate the proportion of outstanding tariffs that were entered into during the period of uncertainty prior to Draft Determinations, we assume that contracts are entered into evenly over time,[19] to get the following breakdown of exposure:

Table 6: Exposure to higher cost in existing tariffs.

| **Fixed tariffs** | **Percentage of tariffs that are facing higher transmission costs** |
|---|---|
| 2-year | 15% |
| 3-year | 35% |
| 5-year | 57% |

5.78 Finally, to estimate the impact on supplier costs of the discrepancy between NESO's April's forecast and that in our Draft Determination – we combined the 83% discrepancy observed between NESO's projected charges and our Draft Determination.

Table 7: Percentage impact of forecast discrepancy on suppliers: as a share of transmission costs

| **Tariff length** | **Pecentage Impact** |
|---|---|
| 2 years | 1.6% |
| 3 years | 6.3% |
| 5 years | 4.1% |
| **Total** | **12.0%** |

5.79 Table 7 shows that under an extreme scenario suppliers could lose 12% of transmission charges revenue due to the discrepancy in the forecast from April 2024 to Draft Determination. However, we think that it is highly unlikely that a reasonably efficient supplier would face as much of an impact of the difference in NESO's forecasts; due to the combination of:

- we expect that suppliers should have predicated some increase in charges in RIIO-3, even if those increases were not as high as set out in our Draft Determination;
- if suppliers are fully exposed over a 5-year period, then we would expect some level of risk premium to be built in to offset this; and

[19] We use triangular numbers formula to estimate the proportion of contracts exposed to forecast error which is equivalent to calculating the depreciation of the contract using the sum-of-months' digits method.

- alternatively, we would have expected suppliers to consider pass-through clauses as a way of mitigating the risks associated with increases in RIIO-3 charges.

5.80 We therefore do not consider that the 'unadjusted' scenario is a reasonable assumption on which to base our response to the suppliers' concerns about our RIIO-3 Draft Determination. Between December 2024 and June 2025 at least, suppliers should have had a reasonable understanding that bills were likely to rise significantly during RIIO-3. We think a reasonable assumption is that actual exposure for suppliers would have been between 3-5% of transmission charges, after assuming some level of risk premium on the longest-term contracts and reasonable forecasting. This level of additional cost is equivalent to less than 1% of electricity supplier costs. Whilst this is therefore an adverse impact, it is not so large, in our view, to threaten their financeability.

5.81 Nevertheless, the effects on suppliers are hard to measure accurately and will vary depending on the customer mix of different suppliers. We have therefore taken a cautious approach and looked more broadly at the timing of RIIO-3 revenues, and we have reduced the size of 2026/27 revenues (see Revenue adjustments section above). As a result, we expect the size of any potential adverse impact on suppliers' financeability to be further mitigated. The changes that we are making to the timing of revenues across RIIO-3 should be broadly cost-neutral for customers and network companies, and should further reduce the exposure for suppliers.

5.82 Compared to Draft Determinations, the 2026/27 increase in ET charges will be reduced by around 65%. We do not consider further profiling would be in consumers' interests, as it would result in higher charges later in RIIO-3. The approach to bill profiling is discussed in paragraph 5.29 above, and in our Finance Annex.

5.83 Overall, we therefore conclude that while there will be some impact on non-domestic suppliers and consumers, we have made reasonable efforts to mitigate these impacts. Any residual impacts will then not be disproportionate to the overall benefits of RIIO-3 described in the previous sections.