
RIIO-3 Final Determinations Overview Document

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

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Foreword

The Government's energy policy is to move away from a dependence on imported gas for power generation and instead produce it in GB, using a range of technologies including renewables and nuclear. To enable this transition while maintaining security of supply and controlling costs, we need to significantly increase investment in the electricity transmission network, potentially to almost four times current levels. We also need to continue spending what is necessary to keep gas networks safe and reliable. That is the focus of these Final Determinations.

Since our Draft Determinations, we have listened carefully to the representations made by all stakeholders. We have made targeted refinements to improve clarity, flexibility, and consumer protections - while holding firm on the need for cost discipline and value for money. We are also setting an overall financial framework that reflects the realities of the investment environment, with a cost of capital grounded in market data and safeguards to prevent excessive returns. We are confident this represents a credible and compelling proposition for investors - and a fair deal for consumers.

Our electricity transmission network decisions enable early action to strengthen supply chains, accelerate delivery, and protect consumers from future price shocks. We are approving a portion of what now, based on updated forecasts, could be over £70 billion of network upgrades over the next five years. Around £10 billion of this new investment is being committed now, with further funding released as and when system needs and costs become clearer.

In gas, we are committing spending to maintain reliability and strengthen resilience while adapting to a changing energy mix. Our approach ensures that new investment is proportionate, efficient, and aligned with long-term system needs - avoiding unnecessary cost exposure for future consumers.

As we made clear in our Draft Determinations, these critical investments are essential to keep the system safe and secure, and to enable the transition to clean power. They will bring additional costs for consumers in the short term - something we understand will be a hard burden to bear - but they will also produce benefits.

We expect that, for households with median energy use, network charges on bills for these sectors could rise by around £108 by 2031, if all of the prospective investment in electricity transmission is needed. This does not mean that we expect overall energy bills to rise by an equivalent amount by 2031. The investment will deliver bill savings and other benefits for consumers. By increasing the penetration of renewable power and reducing the escalating constraint costs payments made to electricity generators when the grid cannot transmit their power, we estimate savings of £80 by 2031 compared to

doing nothing. The investment in the gas networks will strengthen safety and reliability as our domestic production of gas declines and our reliance on imports increases. Replacing leaky iron mains with plastic pipes will reduce the risk of dangerous gas leaks and methane emissions.

In order to minimise the impacts on the retail market and on consumers, we will work to smooth the path of increases in charges so that the initial impact on network charges for April 2026 is lower with a smoother transition to higher charges over the following five years as investment in the electricity network steps up.

Unlocking these investments will also help strengthen productivity and resilience across the economy. For energy intensive industries such as a steel plant, a combination of lower system costs driven by this investment programme alongside separately determined government support could reduce bills by 10-15% by 2031, allowing these critical industries to decarbonise and remain competitive internationally. The impacts on wider businesses will vary depending on their size and energy use, with smaller businesses expected to share similar net benefits to households.

These Final Determinations mark a decisive step forward in building a clean, secure and affordable energy system for consumers.

Akshay Kaul

Director General for Infrastructure

Executive Summary

A strategic and adaptive framework

RIIO-3 sets out a regulatory framework to unlock the investment needed to build a more secure, reliable, and affordable energy system. It responds to the scale and urgency of infrastructure delivery required to increase energy security and resilience and meet government growth and decarbonisation targets, while keeping a strong focus on cost control and protecting consumers. The framework is designed to be flexible, with tools that allow funding to adjust as needs and risks change across electricity and gas networks.

It also reflects the realities of delivering infrastructure at scale. We have built in mechanisms that allow for early action where justified, while maintaining discipline on efficiency and value for money. Sector-specific approaches to cost recovery ensure fairness and predictability, and our decisions are shaped by extensive stakeholder input and lessons from previous price controls.

RIIO-3 will make the system work better for consumers, maintain robust controls on prices and bills, set incentives that drive the right outcomes, and ensure the essential investment needed to safeguard critical network infrastructure is made at the right time and delivers demonstrable value for all consumers that depend on it. The framework is designed to support delivery, adapt to uncertainty and changing requirements, and ultimately better protect consumers - not just now, but over the long-term.

Making efficient investment decisions to fund the future

We are approving £28.7bn of upfront investment across the electricity transmission (ET), gas transmission (GT), and gas distribution (GD) price controls - an 18% increase from our Draft Determinations, based on better supporting evidence and updated modelling. This sits within a wider investment pipeline of around £90bn over the RIIO-3 period, which runs from 1 April 2026 until 31 March 2031. Our decisions are based on detailed cost reviews and a clear test of need and efficiency.

We have carefully reviewed company plans and increased funding where justified - notably in critical infrastructure resilience areas like cyber security, IT systems, and asset health and safety-critical investments, where companies have provided improved evidence of why work is needed and better considered options for interventions that are in the long-term consumer interest.

Embedding efficiency into every aspect of network operations is fundamental to protecting consumer value through fair prices. We continue to set a 1% annual ongoing efficiency challenge across all sectors, based on our assessment of productivity potential for energy network companies, driven by increasing adoption and usage of data,

digitisation and AI, to drive efficiency improvements across various elements of network operations and future investments.

Our overall approach to setting these RIIO-3 price controls balances the need to act early, combined with regulatory protections and delivery incentives to ensure timely delivery and long-term value for consumers.

Sector overviews – electricity and gas in focus

Electricity Transmission (ET)

RIIO-ET3 supports the infrastructure needed to deliver a more secure and resilient electricity system. We are setting allowances for £10.7bn of upfront funding, up £1.8bn from our Draft Determinations.

This is only a portion of the total prospective investment in electricity transmission. Across the RIIO-ET3 period, over £70bn of investment may be required. How much in total depends on future demand levels and how far the fixed costs of the system need to grow. We have designed our framework of in-period mechanisms to flex the price control when there is more certainty on the investment required. This means that allowances and the associated cost to consumers, will adapt in line with the project development cycle, which in turn is driven by evolving system needs.

The package is designed to reduce exposure to future price shocks and system bottlenecks. We have streamlined our assessment processes to ensure we do not delay the delivery of critical investment while maintaining sufficient scrutiny to funding requests, expanded flexible funding pots, and strengthened incentives for timely delivery and innovation. These changes reflect stakeholder feedback and are aimed at protecting consumers - ensuring companies are strongly incentivised to deliver critical infrastructure efficiently and on time.

RIIO-ET3 includes:

- Approval of £10.7bn of baseline funding, with further funding available through in-period mechanisms for projects where there is uncertainty.
- Increased early-stage development funding to help companies plan and design projects before full approval.
- Confirmation of automatic approval for key strategic projects identified by the NESO's Centralised Strategic Network Plan (CSNP), alongside introducing independent technical support to speed up cost assessments.
- Strengthened delivery incentives to reduce system bottlenecks, connect customers more quickly and take innovative approaches to better utilise the

existing network and reduce system costs, including through the deployment of Dynamic Line Rating.

- Introduction of a stepped Totex Incentive Mechanism (TIM) to balance cost efficiency and delivery risk, alongside stronger incentives for early and on-time delivery.
- Establishment of an overall incentive package through which companies can earn a higher level of additional return, if they outperform targets and deliver network investment which results in short and long-term reductions to consumer bills.

Gas Transmission (GT)

RIIO-GT3 confirms the ongoing importance of the GT network for both gas and electricity system reliability. We are approving £3.2bn of upfront funding, up £0.7bn from our Draft Determinations, with targeted increases in asset maintenance, IT, and cyber security. A range of flexible funding tools allows us to respond to emerging needs, including risks linked to critical infrastructure.

RIIO-GT3 includes:

- Approval of 79% of National Gas' investment request following stronger evidence and better planning.
- Introduction of enhanced monitoring and delivery checks to ensure funded work is completed - with costs returned to consumers if not delivered.
- Retention of a 39% cost-sharing incentive (TIM) to encourage efficiency.
- Strengthening of environmental and system operator incentives to drive performance and reduce emissions.
- A suite of re-openers that can provide additional funding during the price control to support resilience.

Gas Distribution (GD)

RIIO-GD3 is a steady-state control focused on maintaining safe, reliable networks providing an essential service to GB households and businesses. We are approving £14.8bn of upfront funding, up £2.0bn from Draft Determinations, reflecting HSE led safety-driven increases in pipe replacement, modelling corrections, and robust data and stronger evidence of system need and consumer benefit to justify proposed investments.

RIIO-GD3 includes:

- Approval of replacement expenditure (repex) funding, including increased allowances for mandatory safety work following HSE policy changes, while

ensuring we have only provided funding for non-mandatory work that is well justified and offers value for money regardless of future network use.

- Support for network companies to minimise their impact on the environment, including further driving down methane leakage by introducing a new financial incentive for faster leak repairs and funding innovative detection methods.
- Incentives for delivering high-quality services that meet consumers' needs, including encouraging GDNs to achieve customer satisfaction scores above 9/10 and promoting collaboration with other utilities to reduce disruption from streetworks.
- Support for consumers in vulnerable situations with a dedicated £165m vulnerability allowance (continuing from RIIO-GD2) alongside additional funding support within companies' allowances.
- Application of robust and stretching but achievable cost benchmarking to drive value for consumers, including placing a strong catch-up efficiency challenge on network companies behind the most efficient companies in the sector.
- Confirmation of our approach to implement faster repayment (depreciation) of new investments made during RIIO-GD3 to ensure fair treatment between current and future consumers, while working closely with government during RIIO-3 to support its future of gas programme in addressing the strategic challenges facing the gas system.

Financial framework – ensuring stability and confidence

Our RIIO-3 financial framework is designed to provide long-term stability, support the scale of investment needed across ET and gas networks, and ensure bills remain fair for consumers.

We are setting returns for investors to reflect market conditions, specifically recognising that interest rates have risen since we set the RIIO-2 price controls. This approach means that investors should earn reasonable returns so long as they deliver value for consumers.

We have introduced targeted refinements since Draft Determinations - updating key parameters to reflect market data and investor feedback - while retaining core positions where appropriate. Together, these refinements send a clear signal that the package is investable, financeable, and capable of delivering the energy transition at pace.

Key decisions include:

- Competitive baseline returns - we are setting cost of equity allowances at 6.12% for gas and 5.70% for ET, reflecting higher interest rates and our

methodological changes proposed at Draft Determinations. These levels are grounded in market evidence and benchmarked against comparable assets.

- Compelling incentives package - our framework is designed to reward strong performance for consumers, with incentives calibrated to encourage timely delivery and efficient outcomes.
- Updated debt allowance - we have introduced a nominal allowance for fixed-rate debt to protect consumers from inflation shocks, and tailored debt allowances for each sector to better reflect borrowing needs.
- Overall cost of capital - the final (semi nominal) Weighted Average Cost of Capital (WACC) ranges are slightly higher than at Draft Determinations, reflecting updated market rates.
 - Gas - 5.18%
 - ET - 5.53% - 5.74% (sector unweighted average 5.64%)
- Financeability - we have assessed the package and are comfortable that it enables the financeability of networks, supporting strong credit ratings and ensuring that companies can raise the capital needed to deliver.
- Financial resilience - our new measures encourage companies to adopt a prudent and responsible approach to financial arrangements and reduce the risk, or impact of, financial failure.

Assessing the impact of RIIO-3 on bills and protecting market stability

Impact on domestic and non-domestic consumers

We recognise that the increased investment required during RIIO-3 comes at a time of significant cost pressure on households and businesses. Our Final Determinations reflect a strategic choice to invest now to avoid higher costs later. Acting now will accelerate the shift to renewables, reduce network congestion costs, strengthen energy security, create jobs, and help meet government targets - ultimately reducing long-term costs and protecting future re-generations.

The total investment that will be required into the electricity transmission system is uncertain and dependent on final scope and costs for critical projects being confirmed. For the purpose of assessing the impact on consumer bills we have used an upper bound estimate, equivalent to around £70bn (based on updated data since our Draft Determinations). Although the eventual amount could be lower or higher than this, our RIIO-ET3 baseline allowances, together with the costs of the projects that are already in progress, including the ASTI programme, mean that at least £44bn is already committed for the period.

For a dual-fuel domestic consumer with average energy use, our RIIO-3 decisions mean that network charges are expected to rise around £108 by 2031. This is made up of:

- £30 for the substantial additional investment needed to upgrade ET grid capacity to meet new demands and reduce constraint costs.
- £68 for business-as-usual spending which includes:
 - (1) ensuring the effective ongoing operation of the ET networks, including asset health investments and rolling over previously approved funding commitments from RIIO-2;
 - (2) investing in the gas networks to ensure they remain safe and secure while we transition to other alternatives; and
 - (3) updating wider aspects of our cost, financial and tax assumptions in line with the current macroeconomic environment and protecting consumers from future inflation spikes.
- £10 for accelerated depreciation in GD to keep charges reasonable for current and future consumers, appropriately spreading the fixed costs of the gas network as its long-term role evolves.

However, this investment will deliver direct savings for consumers. By the end of RIIO-3, it is expected to reduce other elements of the electricity bill by around £80 as the energy system becomes more efficient and resilient - reducing some constraint costs and avoiding further increases in others, improving reliability, and limiting exposure to volatile global energy prices. These benefits are expected to grow over time, by supporting the continued expansion of renewable energy connections. This means, overall, the net costs of RIIO-3 (including day-to-day network operations) are equivalent to bills being higher by about £30 a year by 2031, or around £2.50 per month.

Unlocking these RIIO-3 investments will also strengthen productivity and resilience across the economy. For other businesses, the impact will vary depending on size and energy use. To illustrate the potential impact by 2031, electricity network charge increases could range from around £70 a year for a small business like a holiday let or retail kiosk, to about £1,790 for small offices or hotels, and around £9,760 for a medium-sized factory. These figures are estimates and will vary significantly. Crucially, as with households, these investments should deliver net benefits - through avoided constraint costs and lower wholesale prices.

Meanwhile, energy-intensive industries will be supported to decarbonise and remain internationally competitive, with bills potentially 10–15% lower by 2031 as RIIO-3 benefits combine with wider government policy.

Revenue profiling

Through our Draft Determinations consultation, we received significant representations from suppliers, especially those with large non-domestic customer bases, highlighting concerns about a potential unreasonable mismatch between the likely increase in network charges in April 2026 and projections previously provided by NESO. The concern was that, unless addressed, this could create instability in some markets, particularly where fixed-rate contracts are already in place.

In our Draft Determinations we assumed a stable profile of additional network investment over the RIIO-3 period. This profiling has been updated based on latest projections provided by the TOs, resulting in a more gradual increase than assumed. This gives a more accurate forecast of the timing of likely spend, consistent with current planning assumptions. It also reduces the risk of consumers unnecessarily prepaying network charges.

Consistent with regulatory approaches taken in previous price controls, we consider there to be a consumer interest in further profiling ('smoothing') the forecast increase in network charges into RIIO-3 to protect wider market stability. This approach allows critical network investment to progress while making it easier for retailers and gas shippers to price fixed tariffs. By reducing the initial increase in network charges and smoothing changes over RIIO-3, the increase in network charges on bills is lower in the early years of the RIIO-3 period (around £11 less in 2026/27 than they otherwise would have been) with later rises to recover the deferred costs. Total costs are unaffected and the overall impact on network company revenues remains neutral under this approach.

We agree with stakeholder feedback received in response to our Draft Determinations that industry requirements relating to network charge forecasting should be strengthened. We will work with all relevant stakeholders, including NESO, to improve network charging forecasts and ensure network companies provide accurate investment forecasts throughout RIIO-3.

Further detail is in our Impact Assessment, published alongside these Final Determinations.

1. Introduction

Purpose of this document

- 1.1 This document sets out our Final Determinations for the next electricity transmission (RIIO-ET3), gas transmission (RIIO-GT3) and gas distribution (RIIO-GD3) network price controls. These RIIO-3 price controls cover the five-year period from 1 April 2026 to 31 March 2031. All figures are in 2023/24 prices unless otherwise stated.
- 1.2 In reaching these Final Determinations we have duly considered all stakeholder feedback across each phase of the programme. The decisions reflect feedback provided from the network companies and wider stakeholders, including the 152 responses to our Draft Determinations published in July 2025. Where non-confidential, these responses have been published on our website.¹

Ofgem's duties

- 1.3 Ofgem is GB's independent energy regulator. We work to protect energy consumers, especially those who are vulnerable, by ensuring they are treated fairly and benefit from a cleaner, greener environment.
- 1.4 We operate in a statutory framework set by Parliament. This establishes our duties and gives us powers to achieve our objectives. We are governed by the Gas and Electricity Markets Authority ('GEMA'), which determines our strategy, sets policy priorities and makes decisions on a wide range of regulatory matters, including price controls and enforcement.
- 1.5 Our Final Determinations are guided by a need to balance our wider statutory duties. Our principal duty is to protect the interests of current and future gas and electricity consumers, including their interests in security of supply and the UK achieving its net zero targets. Our decisions also consider broader statutory duties, including having regard to promoting economic growth and regard to the need to secure that efficient network companies can finance their regulated activities.

RIIO-3 development process

- 1.6 We began the RIIO-3 process in September 2022 with an Open Letter which set out the strategic context of future systems and network regulation (FSNR) and invited views from stakeholders on the framework.² In March 2023, we issued a

¹ [RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#)

² [Open Letter: Future Systems and Network Regulation | Ofgem](#)

consultation on the overarching FSNR framework and followed this with our Framework Decision in October 2023, which maintained the broad RIIO-3 Framework.³

- 1.7 We then consulted on the methodology we will use to apply the RIIO-3 framework for each sector and made our Sector Specific Methodology Decisions (SSMD) in July 2024.⁴ Our SSMD also provided the framework for the network companies to develop their business plans for RIIO-3.
- 1.8 Companies submitted their business plans to us and published them on their websites in December 2024. In July 2025, we published our Draft Determinations consultation setting out our proposals for each sector and licensee.⁵ The consultation closed on 26 August 2025. Since issuing the consultation, there has been extensive engagement with stakeholders. We have listened to feedback and considered all responses in reaching our Final Determinations.

Navigating the RIIO-3 Final Determinations

- 1.9 Our suite of Final Determinations publications is set out in the figure below. This document is the Overview Document and sets out the strategic context which has informed our decisions and our view on regulatory package as whole. It also contains topics where our approach to aspects of RIIO-3 is common to all sectors. For example: our approach to setting outputs and uncertainty mechanisms; the assessment of the Business Plan Incentive; and our approach to innovation funding.
- 1.10 This Overview Document should be read alongside the following Final Determinations documents:
 - **ET, GT and GD Annexes** - these contain regulatory decisions on topics that are specific to each sector, such as load-related funding mechanisms in ET, or replacement expenditure (repex) in GD.
 - **Finance Annex** – this contains our decisions on the regulatory finance package to ensure companies can attract the necessary capital and finance their operations.
 - **Company Annexes** – these contain our decisions that are specific to each individual network company.

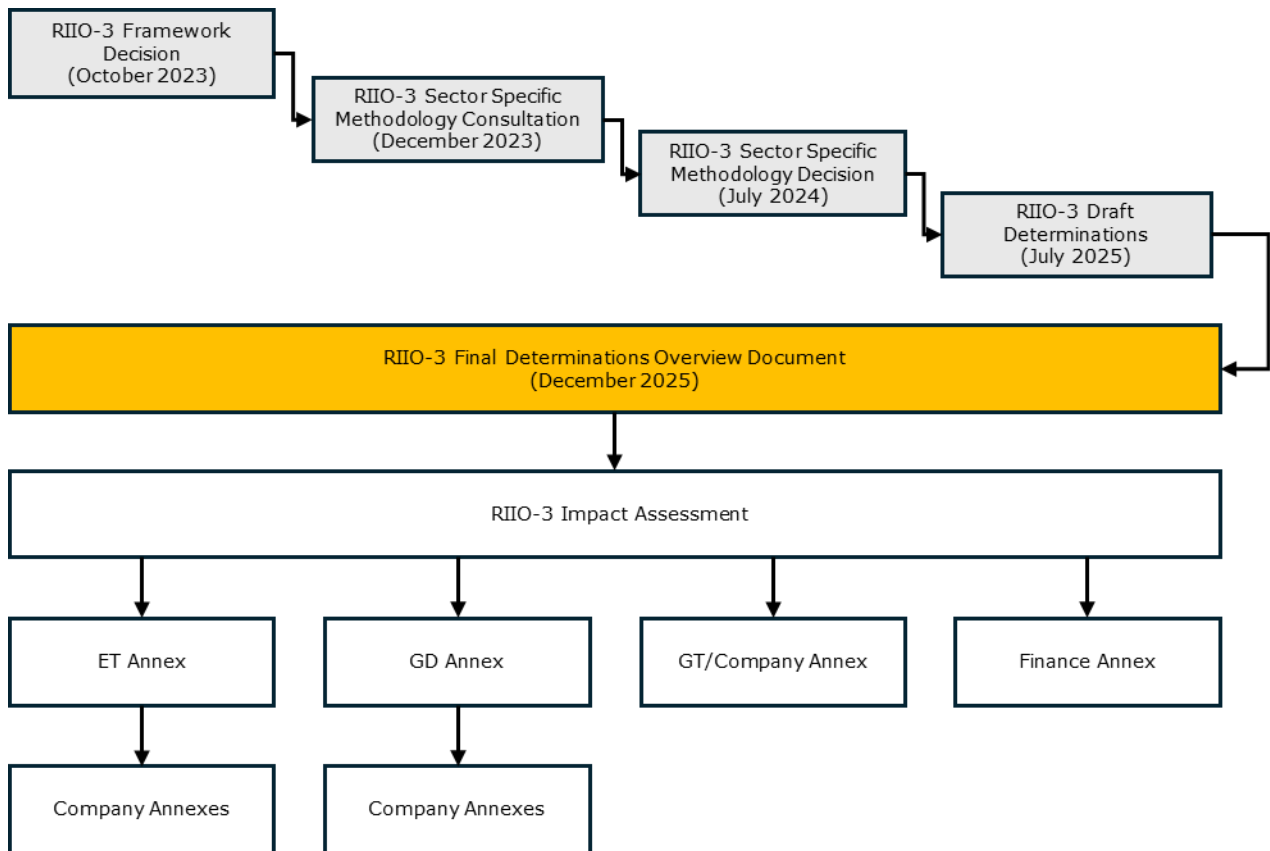
³ [Decision on frameworks for future systems and network regulation | Ofgem](#)

⁴ [RIIO-3 Sector Specific Methodology Decision for the Gas Distribution, Gas Transmission and Electricity Transmission Sectors | Ofgem](#)

⁵ [RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors | Ofgem](#)

- **Impact Assessment** – this sets out our assessment of the likely impact of these Final Determinations on consumers and the network companies.

Figure 1: RIIO-3 Final Determinations map



Stakeholder engagement and consumer voice

- 1.11 We have placed consumers at the heart of our decision-making throughout the RIIO-3 process. Each network company was required to demonstrate effective stakeholder engagement and establish an Independent Stakeholder Group (ISG) to challenge and shape their business plans.
- 1.12 ISGs played a vital role in ensuring that network companies' business plans (submitted in December 2024) reflected stakeholder needs and delivered value for money. They provided independent assurance of the quality and focus of company plans. Their ISG reports generally supported the companies' final business plan proposals and did not highlight major areas of disagreement. This reflects the constructive and rigorous engagement between ISGs and companies throughout the process.
- 1.13 To support our Draft Determination assessment, we launched a Call for Evidence in December 2024, which closed in February 2025. This invited stakeholders to express support for, or challenge to, aspects of the network companies'

proposals. We received 534 responses, including ISG reports, all of which are published on our website.⁶

- 1.14 Throughout the price control process, we have also undertaken wider engagement, including policy workshops across all three sectors, cost assessment working groups, extensive discussions with government and devolved administrations, and dedicated sessions with ISG Chairs and investors. This engagement has been instrumental in shaping our decisions and, where appropriate, we have explained how it has informed our decisions.

The ongoing role of the ISGs

- 1.15 We have decided that ISGs should have an ongoing role throughout the RIIO-3 period. We agree that ISGs have an important role to play in holding companies to account for delivery. This will include driving strategic alignment and outcome-focused collaboration as part of the ISG-led Vulnerability and Carbon Monoxide Allowance (VCMA) National Steering Panel, and holding their respective GDN accountable for delivering its Consumer Vulnerability Strategies. We will work collaboratively with networks, ISGs, and stakeholders to develop a clear and consistent mandate that maximises the effectiveness of ISGs in during RIIO-3.
- 1.16 We received 24 responses to our Draft Determinations with wide support for an enduring role for ISGs, including a formal mandate during RIIO-3 and beyond. Most of the network companies emphasised the ISGs' value in providing independent scrutiny, improving business plan quality, and ensuring stakeholder views are embedded in decision-making. ISGs were credited with enhancing transparency, accountability and legitimacy, particularly through continuous engagement and challenge across both planning and delivery phases. Several ISGs highlighted their evolving role in monitoring performance, influencing strategic direction, and supporting innovation. Two respondents noted the benefits of early guidance from Ofgem and structured engagement with the ISGs to ensure we receive and act upon their feedback. We welcome the support expressed by stakeholders and will work with network companies and ISGs to define this role through a formal mandate. We will also draw lessons from this process to inform future price controls, including the next electricity distribution review (ED3), for which business plans will be submitted at the end of 2026.
- 1.17 One respondent questioned whether ISGs had sufficiently engaged with all consumer types, particularly energy retailers and non-domestic users. They

⁶ [Call for evidence on the electricity transmission, gas transmission and gas distribution business plans for RIIO-3 | Ofgem](#)

expressed concern over the lack of clarity in cost implications and suggested ISGs play a stronger role in communicating investment impacts and network charging forecasts. They also highlighted the need to better integrate ISG feedback into broader policy outcomes and to address local opposition to infrastructure projects more transparently. We think this could go beyond holding network companies to account for delivery of their RIIO-3 business plans but have noted this feedback and will consider it when establishing an enduring role for ISGs.

Next steps to finalise RIIO-3

- 1.18 These Final Determinations are not the end of the process for setting the RIIO-3 price control. We expect the network companies to continue to work constructively with us to conclude the price control review. This includes finalising Associated Documents for a range of outputs and mechanisms to enable companies to deliver the price control effectively.
- 1.19 Following the publication of these Final Determinations, we will publish our statutory consultation on licence modifications, later this month. In February 2026 we will publish our decision on the RIIO-3 licences. On 1 April 2026 the RIIO-3 price control will start and run until 31 March 2031.

2. Scene setting

Decarbonising the energy system

- 2.1 The energy system transition is underway, driven by the need to build a more secure, reliable and affordable energy system. This transition is required to meet the United Kingdom's (UK), Scottish and Welsh governments' decarbonisation and growth targets,^{7 8} and the policies underpinning these, including Clean Power 2030 (CP2030).⁹ Our aim is to support government targets, and ensure RIIO-3 recognises the increasing divergence in the roles of electricity and gas networks.
- 2.2 Electricity demand is rising as it replaces other fuels, for example in powering vehicles and heating buildings. Meeting government targets will need substantial new electricity generation in different locations, requiring unprecedented levels of new transmission infrastructure to meet evolving and accelerating demands.
- 2.3 While electrification is central to the energy system transition, we do not expect large-scale, systematic changes to the natural gas networks during RIIO-3. Ensuring safety and resilience remains paramount, as gas continues to play a critical role in heating homes and businesses, powering fuelling industry and generating electricity. However, the role of natural gas is evolving, albeit at an uncertain pace. Our regulatory approach must therefore remain adaptable to manage this uncertainty and support an orderly transition.
- 2.4 These differing policy contexts for electricity and gas networks pose distinct challenges, which are outlined below and that we have carefully considered when setting RIIO-3.

Electricity Transmission

Modernising infrastructure to support government targets and wider electrification

- 2.5 The ET system's core purpose is to ensure that the flow of electricity supply and demand is balanced in real time across GB, but the requirements of the ET system have changed over the past decade. This change is accelerating. Output from fossil-fuelled power stations has reduced, replaced with low carbon generation sources that connect directly to both the transmission and distribution networks. ET assets have thus had to be built in different locations, for example in coastal areas where wind resources are high. Power flows on the ET system are

⁷ [Climate plan captures clean energy benefits and boosts investment - GOV.UK](https://www.gov.uk/government/news/climate-plan-captures-clean-energy-benefits-and-boosts-investment)

⁸ [Scotland's Climate Change Plan – 2026-2040 - gov.scot](https://www.gov.scot/publications/scotland-climate-change-plan-2026-2040/pages/introduction/)

⁹ <https://www.gov.uk/government/publications/clean-power-2030-action-plan>

now multi-directional, flowing both to, and increasingly from, the distribution system. This results in upgrades to existing assets, which both supports new load and enhance network resilience in line with our and government's targets,¹⁰ and the addition of new assets to manage this change.

- 2.6 In November 2023, government published its transmission acceleration action plan (TAAP)¹¹ aimed at reducing the time it takes to build ET network infrastructure. Its recommendations have featured heavily in our RIIO-ET3 design, particularly those that relate to removing our assessment of investments from the critical path for project development.
- 2.7 Government's ambition is for the electricity system to operate through 95% low-carbon generation by 2030 - a programme known as Clean Power 2030 (CP2030). Helping to enable CP2030, and the consumer benefits it will deliver, is a key part of our RIIO-ET3 package.
- 2.8 We have also designed RIIO-ET3 to support government's plans for economic growth, most recently set out in its Industrial Strategy,¹² by enabling the connection of new industrial demand, which will support investment and jobs for the GB economy.

The connections challenge

- 2.9 An increased volume of customers seeking to connect to the transmission network has strained existing processes and led to delays to connecting low carbon generation. We are working closely with NESO to drive reform to the connections process in GB to address the growing backlog of connection applications.
- 2.10 To tackle these issues, NESO is in the process of re-ordering the connections queue – with our support – to prioritise customers who are most ready to connect to the network. By ensuring that projects stay on track with key milestones, this approach supports the broader goals of CP2030, helping to ensure that there will be a marked increase in renewables ready to use the increased network capacity that will be funded through RIIO-ET3.

¹⁰ [New Energy Resilience Strategy to better protect infrastructure - GOV.UK](#)

¹¹ <https://www.gov.uk/government/publications/electricity-networks-transmission-acceleration-action-plan>

¹² <https://www.gov.uk/government/collections/the-uks-modern-industrial-strategy-2025>

The evolving role of strategic network planning

- 2.11 The way that the ET network is planned and designed is also changing, being increasingly linked to strategic plans produced by the NESO with coordinated input from key stakeholders, including government.
- 2.12 The first milestone in this process was the Holistic Network Design (HND)¹³ in June 2022, which provided an offshore and onshore design to facilitate the government's ambition of 50 GW of offshore wind by 2030. This resulted in our decision in December 2022 to introduce the Accelerated Strategic Transmission Investment (ASTI) framework to rapidly approve funding for large, strategic onshore electricity transmission projects to deliver this ambition.
- 2.13 In December 2023, we decided that the new independent NESO should develop the first Centralised Strategic Network Plan (CSNP) to identify enduring onshore and offshore transmission network planning needs.¹⁴ We are working with NESO and government on the Strategic Spatial Energy Plan (SSEP), which will be a key input into the CSNP.¹⁵ We recently published guidance on the CSNP, which makes clear our expectations for NESO regarding how the plan is developed.¹⁶
- 2.14 Ahead of the full CSNP, the HND is now referred to as the first transitional Centralised Strategic Network Plan (tCSNP1). The NESO published the second transitional CSNP (tCSNP2) in March 2024,¹⁷ and we published our decision on funding to accommodate the changes in December 2024.¹⁸ NESO is now developing an update, the tCSNP2 refresh, due to be published in 2026 to take account of CP2030 and other changes to network planning. Our ET Annex sets out how these projects will be funded.

Gas Distribution and Gas Transmission

Investing in resilience, strategic planning and managing future uncertainty

- 2.15 The National Transmission System (NTS) is critical national energy infrastructure, both for transporting gas where it is needed across GB and supporting electricity system security. The resilience of the network must continue to reflect this.

¹³ <https://www.neso.energy/publications/beyond-2030/holistic-network-design-offshore-wind>

¹⁴ <https://www.ofgem.gov.uk/decision/decision-framework-future-system-operators-centralised-strategic-network-plan>

¹⁵ <https://www.gov.uk/government/publications/strategic-spatial-energy-plan-commission-to-neso>

¹⁶ <https://www.ofgem.gov.uk/guidance/centralised-strategic-network-plan>

¹⁷ <https://www.neso.energy/publications/beyond-2030>

¹⁸ https://www.ofgem.gov.uk/sites/default/files/2024-12/tCSNP2_decision.pdf

- 2.16 In gas distribution, it is vital that the GDNs continue to provide a secure, uninterrupted supply of gas to the 22 million homes and businesses, industrial users and power stations currently connected to their networks.

The importance of strategic planning of the gas networks

- 2.17 NESO is playing an ever-increasing role in both resilience and long-term strategic planning of the NTS. In December 2024, NESO published its first Gas Network Capability Needs Report (GNCNR) setting out the physical capability required of the NTS under future energy scenarios.¹⁹ By the end of this year, NESO will advise us, through the Gas Options Advice (GOA)²⁰, on long-term options that National Gas proposed to meet the needs identified in the GNCNR. We have engaged extensively with NESO and National Gas on these and are confident that the conclusions from the GOA, which will feed into NESO's first CSNP, are fully aligned with RIIO-3.
- 2.18 We are also working closely with NESO and National Gas to integrate and operationalise the increased role strategic planning will play during RIIO-GT3. We have included clear funding routes for investment requirements identified by NESO and introduced licence provisions to ensure National Gas proactively supports NESO and engages with stakeholders to ensure efficient long-term planning.
- 2.19 Better system planning is also needed to support the cost-effective transition of GD away from natural gas use while maintaining resilience. In April 2025, we made our policy framework decision to introduce Regional Energy Strategic Plans (RESPs) to deliver consistency, transparency, and accountability for strategic planning of the distribution system.²¹ NESO is currently consulting on its RESP methodology, which sets out its proposed approach to implementing the RESP role.²² This will be finalised next year and will provide further clarity on the implications for GDNs. We expect the full RESPs to be published in time to inform business planning for the next GD price control.

Managing the uncertain future of gas

- 2.20 The speed, timing and balance of repurposing, decommissioning and retaining natural gas assets will be determined by future government decisions on how to meet decarbonisation targets.

¹⁹ [Gas Network Capability Needs Report \(GNCNR\) | National Energy System Operator](#)

²⁰ Referred to as Gas Options Advice Document (GOAD) in our Draft Determinations.

²¹ [Regional Energy Strategic Plan policy framework decision | Ofgem](#)

²² [Regional Energy Strategic Planning - Methodology Consultation | National Energy System Operator](#)

- 2.21 In the short term, these will be shaped by the UK government's:
- ongoing development of a Hydrogen Transport Business Model (HTBM) to support hydrogen pipeline infrastructure;
 - upcoming strategic decision on hydrogen for heating in 2026; and
 - decisions on rolling out up to 20% hydrogen blends into the existing gas networks.
- 2.22 Uncertainty over the medium to long term role of gas creates challenges that impact our approach to regulation in RIIO-3, and beyond. Consequently, we are working closely with government to ensure the transition away from natural gas is fair and delivered at the lowest possible cost.
- 2.23 UK government's June Gas Update to Market highlighted the need to look holistically at the gas system's role in the energy transition.²³ It identified three strategic challenges:
- resilience of gas supply and infrastructure;
 - balancing infrastructure investment and affordability; and
 - managing a planned and orderly operational transition.
- 2.24 We agree with these challenges and will support the government in addressing them. Our Final Determinations reflect this context. In particular, our approach to gas depreciation (see Chapter 7 of this document and Chapter 8 of the Finance Annex) aligns with the government's upcoming call for evidence on gas network investment and affordability. This call for evidence will seek views on cost recovery options, including alternatives to accelerated depreciation, given a declining future gas consumer base.
- 2.25 We are also working with government to design and implement the HTBM and to regulate Carbon Capture and Storage (CCS) transport and storage networks. To enable the potential repurposing of natural gas assets for hydrogen and CO₂, we are developing an asset valuation methodology for transferring assets between the regulatory asset bases. We consulted on this earlier this year and are now considering responses.²⁴

²³ [Midstream gas system: update to the market - GOV.UK](#)

²⁴ [Ofgem's proposed asset valuation methodology for repurposing of natural gas assets: consultation | Ofgem](#)

3. RIIO-3 strategic design of the framework

Introduction

- 3.1 Across successive RIIO price controls, we have developed a suite of different tools to implement a price control framework and ensure it can adapt over time. While each sector has its own specific set of price control arrangements, and indeed each company may have elements of its settlement that are bespoke, they are underpinned by the application of common tools and mechanisms that we apply across each sector.
- 3.2 We are using these tools for RIIO-3 to protect the interests of current and future consumers. This means retaining elements of previous price control frameworks, simplifying and streamlining arrangements where appropriate and embedding adaptability into the framework. Adaptability is essential to ensure regulation remains effective amid rapid change in the energy landscape, enabling timely responses to challenges and opportunities throughout the price control period.
- 3.3 In this section we describe these 'cross-sector' tools that build the RIIO framework and are discussed across the suite of our Final Determination documents.
- 3.4 We did not receive any specific feedback as part of the Draft Determinations on the explanations in this chapter (although no explicit questions were asked). As such, no material changes have been made to our description of the strategic design of the RIIO framework that follows below.

Setting outputs and incentives

- 3.5 Through the RIIO model, we use outputs to reflect the attributes of network service quality that are of most value to current and future consumers (including those in vulnerable situations). Outputs should be specific, measurable and substantively within the control of network companies to deliver.
- 3.6 As a general rule, we expect the delivery of a target level of an output to be funded through baseline allowances. Where there is value (or loss) to the consumer of service quality improvement (or degradation) an Output Delivery Incentive (ODI)²⁵ can be applied to measure how far from the target level the company has performed. ODIs can then be linked to a financial reward and/or penalty (ODI-F). In some areas, rather than a financial incentive, we may use a reputational incentive (ODI-R) to drive company performance. We are more likely

²⁵ ODIs can be either financial (ODI-F) or reputational (ODI-R).

to use these where we have less certainty on our ability to robustly set targets, measure performance and clearly align financial value to the consumer.

- 3.7 In contrast to ODIs, licence obligations (LOs) reflect minimum standards expected of companies or a company. These must be met. If a company fails to do so, they may face formal enforcement action from Ofgem.
- 3.8 We also use Price Control Deliverables (PCDs) to attach funding provided in baseline totex to the delivery of specific projects. PCDs allow us to return money to consumers in the event that the output is not delivered. There are two types of PCD:
- Mechanistic PCDs are set in cases where the cost and scope of a high-volume activity is well understood. In such cases, the recovery of any non-delivery of work is automatic.
 - Evaluative PCDs are used for large projects which have clearly defined scopes. This type of PCD allows for an assessment of the output delivered and an adjustment to allowances, if necessary, to protect consumers.

Setting baseline totex allowances

- 3.9 We aim to set baseline totex allowances that, in conjunction with uncertainty mechanisms, ensure the licensee has sufficient, but not excessive, funding to deliver its outputs and other deliverables over the control period. To determine that the allowances are sufficient but not excessive, we make our best estimate of what a notional company of average efficiency (that has operated its network economically and efficiently in the past) would need to spend in the period to run its business and to deliver the relevant outputs.
- 3.10 Our assessment of companies' cost proposals is informed by the Engineering Justification Papers (EJPs) that we require companies to submit, which set out the scope, costs and benefits for major projects or aggregated investment programmes. These act as a decision support tool that we consider alongside other justifications provided for investment decisions.
- 3.11 Our assessment of efficiency considers the productivity improvements that we believe even the most efficient company can achieve. This is referred to as Ongoing Efficiency (OE) and setting a stretching but achievable OE challenge ensures value for money for consumers by incentivising companies to continue to deliver productivity improvements over time.
- 3.12 In setting allowances, we also make adjustments, known as Real Price effects, (RPEs) to reflect changes in input prices experienced by companies over the price control period. The use of RPEs reduces the risk of material external cost

fluctuations that would not otherwise be captured in the broader measure of inflation²⁶, that we apply in the price control.

Uncertainty Mechanisms (UMs)

- 3.13 A core principle of a RIIO price control is that revenues are set upfront, so that companies can finance themselves efficiently and put in place plans to deliver their investment programme within, or below, the budget that we have allowed.
- 3.14 This requires the setting of allowances upfront (or "ex ante") and sharing any over- or underspend against those allowances between companies and consumers. This should drive the company to innovate and drive down costs as well as manage the risk of cost overruns.
- 3.15 However, there are some activities where the associated costs cannot be forecast with any great accuracy at the time of setting a price control. Where this is the case, setting an ex ante allowance could lead to companies being significantly under- or overfunded. In either instance, this is likely to cause detriment to consumers.
- 3.16 Where this is the case, we use UMs to adjust allowances during the period, once there is more certainty. This helps to reduce risk, but has the potential to make the price control framework more complex and slow down investment while we decide on the appropriate level of funding. To avoid this, we have placed more focus on making these UMs as automatic and streamlined as possible for RIIO-3, while also ensuring that the consumer interest is protected by only adjusting companies' funding for efficient costs.
- 3.17 Where there is material uncertainty in the evolution of prices at the start of the control period, we may use indexation to avoid forecasting errors.
- 3.18 Where there is material uncertainty in the evolution of quantities (but unit rates are stable) at the start of the control period, we may use volume drivers to adjust allowances within the control period.
- 3.19 Where there is material uncertainty as to both prices and quantities (and/or the economic needs case is not proven, or the scope of expenditure is unclear) at the start of the control period, we may use a re-opener mechanism during the control period to consider variation in allowances.
- 3.20 Where the specific nature of work to deliver an output will be decided within period and the total amount of expenditure is expected to be relatively low, we

²⁶ Consumer Prices Index including owner occupiers' housing costs (CPIH).

may provide companies with a Use-It-Or-Lose-It (UIOLI) allowance, which provides them with flexibility on how best to use the allowance without the time and resource burden of seeking further approval from us.

- 3.21 We allow companies to pass-through costs for expenditure that is entirely outside their control.

Totex Incentive Mechanism (TIM)

- 3.22 The TIM is a means through which any over- or underspends incurred against baseline allowances are shared between the company and consumers. This incentivises companies to seek out efficiencies to lower cost and retain a share of this benefit and avoid cost increases. Both these behaviours are in the consumer's interest.
- 3.23 The TIM also provides some protection to investors from the risk of significant cost overruns, which helps to lower the cost of financing the companies. Again, this is also in the consumer's interest. By incentivising companies to deliver more efficiently, because they share the benefit of doing so, in subsequent price controls we are able to set stretching but achievable efficiency targets, driving more value for consumers over time.
- 3.24 The proportion of the share of over- or underspend that companies retain is called the incentive rate. We set this to account for a number of factors, including the level of confidence we have in our estimate of costs, and the likelihood and impact of changes in cost.

Innovation

- 3.25 Price controls encourage companies to undertake innovation using their totex revenue as part of their everyday activities (ie business as usual innovation). Dedicated innovation funding is also used to promote research, development and demonstration projects that pay back over timeframes longer than the price control period, or projects that do not deliver direct financial benefits to the network company but are nevertheless in the interests of future consumers.
- 3.26 Innovation funded through the price control requires network companies to operate transparently, collaborate and work towards a strategic industry-wide direction, avoid duplication, share learnings from projects, and track the benefits that spending is delivering. Innovation activities are joined up with government innovation funding (including UKRI); and enable third parties to play a large role in bringing forward new projects.

Business Plan Incentive (BPI)

- 3.27 The Business Plan Incentive (BPI) was developed to overcome information asymmetries between us and the companies and to motivate companies to develop high-quality, ambitious business plans that embed efficiency and represent value for money for consumers.
- 3.28 The BPI rewards companies where, in our view, their business plan represents genuine additional value for money compared to business-as-usual and provides information that helps us to set a better price control. In contrast, inefficient, lower quality Business Plans are subject to financial penalties.

Network Asset Risk Metric (NARM)

- 3.29 Energy network companies are the guardians of essential national infrastructure. A failure of their networks can lead to profound consequences for the functioning of our society. We, therefore, expect strong asset stewardship to safeguard the reliability of the energy network. This involves an understanding of the risk to their network assets, so that they can take the necessary actions to improve and maintain the resilience of old, new and future energy infrastructure.
- 3.30 Network asset risk refers to the likelihood of a network asset failing and the potential consequences of such a failure. If a network company does not maintain, replace, or refurbish its assets, the likelihood of failure - and the associated risks - will generally increase over time. To keep network asset risk within reasonable bounds, network companies receive funding to carry out asset management activities such as replacement or refurbishment.
- 3.31 The NARM has been developed to quantify the consumer benefit of the network companies' asset management activities and holds the companies accountable for their investment decisions. For NARM to be effective, it must be underpinned by a robust baseline plan and an ability to adapt this during the period to prioritise the most critical assets. Where this is not the case, we will apply alternative arrangements to ensure there is sufficient funding and controls on how this is used, so that the necessary investment into asset resilience can be undertaken.

Data and digitalisation

- 3.32 Digitalisation means improving the way we use data and digital technologies to generate value for consumers. The future energy system will require higher quality and more easily accessible data than is currently available. This is because the management of capacity across networks, the proliferation of millions of distributed assets, the interconnected nature of different systems and operators, and the need for decentralised flexibility requires reliable and standardised data

transfer to operate effectively. As such, digitalisation and better use of data is needed to decarbonise and maintain resilience at the least cost by improving the way we use data and digital technologies.

Cyber resilience

3.33 As networks become smarter and more automated, network companies will increasingly rely on interconnected technologies and systems to deliver services to customers. There is a necessity for ongoing investment to ensure energy networks and information systems are adequately protected to detect and prevent cyber-attacks. Network companies are also required to be compliant with Network and Information Systems Regulations (NIS Regulations).²⁷

Financial parameters

3.34 Alongside remunerating companies for the costs that they incur in operating and developing their networks, price control allowances also include the costs associated with financing the companies. There are various parameters associated with this and full details are provided in the Finance Annex. Key financial parameters include the cost of capital, depreciation and capitalisation.

3.35 We set a cost of capital allowance to enable a notional efficient operator to maintain an investment grade credit rating and generate an expected return to equity that fairly reflects the risk facing investors in energy networks that are subject to price controls under our regulation.

3.36 The depreciation allowance (the rate at which the regulated asset value (RAV) is 'repaid' to investors) should be set so that different generations of consumers pay for network services broadly in proportion to the value of the services they receive, whilst having regard to balancing affordability, financeability and the interaction between depreciation and capitalisation.

3.37 The capitalisation rate (the proportion of totex added to the RAV each year) should reflect the broad balance between capital and non-capital expenditure, whilst having regard to balancing affordability, financeability and the interaction between depreciation and capitalisation.

3.38 One way in which we assess the potential impact of our decisions is by estimating the range of Return on Regulatory Equity (RoRE) that investors in a company might earn, depending on how well that company performs in delivering against its allowances, ODI-Fs and other financial parameters.

²⁷ <https://www.gov.uk/government/collections/nis-directive-and-nis-regulations-2018>

4. Outputs and incentives

Introduction

4.1 This chapter sets out our decisions on the RIIO-3 outputs that are common across all sectors. These include our approach to mitigating the environmental impact of network companies and ensuring the ongoing resilience and asset health of the networks. Sector annexes provide details on outputs that apply only to a single sector, while company annexes cover outputs bespoke to individual network companies.

Cross-sectoral outputs

Environmental Action Plan (EAP) and Annual Environment Report (AER) ODI-R

Purpose: To ensure network companies outline their environmental commitments for RIIO-3 and report on their performance against these commitments annually.

Benefits: An environmentally sustainable network which focuses on mitigating emissions, limiting impact on the natural environment, and ensuring efficiency in operations.

Final Determinations summary

Design	Final Determination	Draft Determination
ODI type	Reputational.	Decided at SSMD.
Measurement	Company performance measured in accordance with our Environmental Reporting Guidance, with a common methodology applied where possible. We will assess network companies' AER performance as part of our Annual Report.	Same as FD.
Target	Targets set individually by each network company for EAP commitments and key environmental areas.	Same as FD.
Reporting	Annual public reporting through each company's AER - split into commentary and common key performance indicators (KPIs).	Decided at SSMD.
Applied to	ET, GD and GT.	Decided at SSMD.
Associated document	Environmental Reporting Guidance.	Same as FD.

Final Determinations rationale and Draft Determinations responses

- 4.2 We have decided to retain our Draft Determinations position on all other aspects of the AER design highlighted in the summary table above, to ensure it will deliver its intended benefits for consumers.
- 4.3 Only the overarching design areas that stakeholders commented on in their Draft Determination responses are discussed below. Many of the responses highlighted sector specific environmental issues. These issues are discussed in the relevant sector annexes.

Measurement

- 4.4 Two stakeholder responses highlighted our role in holding network companies to account on their performance during the price control period. We agree with this and confirm our commitment to assess and report on network companies' performance as part of our annual reporting process.

Reporting

- 4.5 We have decided that each network company's AER reporting will be split into commentary and common KPI requirements. We received 23 responses, with all relevant comments supporting this broad approach, often highlighting the expected benefits of common KPIs to stakeholders. We agree and will continue to work with stakeholders to develop our Environmental Reporting Guidance before the start of RIIO-3 to ensure the common KPIs are appropriate.
- 4.6 Some network companies argued that, if mandatory, common KPIs could result in inefficient use of reporting resource if the environmental issues are low priority for them. We will be mindful of this as we develop the Environmental Reporting Guidance but retain our ambition for all KPIs to be common.

Operational Transport Emissions Reduction PCD

Purpose: To facilitate the rollout of Zero Emission Vehicles (ZEVs) during RIIO-3.

Benefits: Reduced carbon emissions associated with operational transport, contribution towards network company business carbon footprint (BCF) targets, and continued modernisation of vehicle fleets.

Final Determinations summary

Design	Final Determination	Draft Determination
PCD type	Mechanistic.	Same as FD.
Output to be delivered	Number of ZEVs by vehicle type.	Change - target number of ZEVs and associated charging infrastructure.
Allowance and unit costs	Allowance set using common unit costs across vehicle types and target number of ZEVs.	Change - allowances and unit costs updated to reflect new information.
Reporting	Annual reporting through the Regulatory Reporting Packs (RRPs) and AERs.	Same as FD.
Applied to	ET (except SHET) and GD.	Change - ET and GD, including SHET.

Final Determinations rationale and Draft Determinations responses

PCD type

- 4.7 We have decided to implement a common, cross-sector mechanistic PCD for ZEVs for all network companies except National Gas and SHET. We have decided to remove associated charging infrastructure costs from the PCD, as suggested by SHET, due to the lack of common costs, outputs and overall low materiality. We have instead ensured that charging infrastructure has either been funded via baseline funding or can be funded via agile in-period allowances, such as the Decarbonisation Project Development (DPD) UIOLI,²⁸ as was suggested by WWU in its Draft Determinations response.
- 4.8 We received 13 responses to our consultation question on the design of this PCD. Ten stakeholders, including five network companies, were positive about our proposal of a common mechanistic PCD for ZEVs and charging infrastructure applying to all GDNs and TOs. However, three positive responses - from Cadent, SGN and SGN ISG - also contained conditions or caveats. Three network companies - WWU, NGET and SHET - disagreed with our proposed design.
- 4.9 WWU asserted that, due to varying network sizes, each network should have bespoke rather than common unit costs per vehicle. NGET also disagreed with our proposal and requested a separate mechanistic PCD for each network company. It asserted that infrastructure varies by location, scale and work required. Similarly, SHET asserted that it had operational challenges that make a uniform approach

²⁸ Previously named the Net Zero and Re-opener Development Fund UIOLI.

unsuitable, citing the difficulties of operating across remote and harsh terrain which would render a common mechanistic framework impractical for its network. We disagree with these three network companies; we do not consider that the cost of ZEVs should vary regionally. Comparative data enabled us to establish efficient unit costs which provides the best value for consumers. A common unit cost promotes consistency and cost discipline across all network companies, preventing unnecessary overspend and reducing the risk of consumers paying for inefficiencies. Additionally, we did not receive sufficient justifications from network companies for the significant discrepancies in cost data provided with their Draft Determinations responses to justify bespoke PCDs. Therefore, we consider a common mechanistic PCD the most efficient way to fund network companies for ZEV uptake as it ensures that all network companies lease or purchase ZEVs at an efficient cost to consumers.

4.10 SHET asserted that we should not apply a PCD to proposals under £15m. We disagree. As we asserted in our Draft Determinations, a PCD is appropriate for all network companies with ZEV-related investment because:

- uncertainty regarding output delivery remains a common issue;
- using a mechanistic PCD means there is a minimal resource burden to expand it to all network companies; and
- broader inclusion enables more robust benchmarking.

4.11 Cadent suggested we review the mechanism annually to ensure it provides flexibility with a changing market. SGN also stressed the need for flexibility so that the PCD does not incentivise impractical or inefficient choices. We have decided to reject these proposals as we consider them an unnecessary regulatory burden that would be disproportionate for a PCD of this materiality.

4.12 SGN supported the idea of a common mechanistic PCD for ZEVs, however it insisted on safeguards to ensure fairness and practicality. It argued that the mechanism must clearly differentiate between leasing and purchasing vehicles, as both achieve environmental goals but could create distortions if treated the same. We agree with SGN, and as seen in Table 2 we have produced unit costs for both purchasing and leasing each vehicle category.

Output to be delivered

4.13 We have decided to set the number of vehicles to be delivered by each network company by vehicle type, as shown in Table 1.

Table 1: Vehicle numbers to be delivered in RIIO-3

Vehicle (all ZEVs)	Weight band (kg)	NGET	SPT	NGN	WWU	SGN	Cadent
Car	N/A	N/A	14	13	9	N/A	N/A
Small Vans	≤ 2,100	N/A	25	18	N/A	247	N/A
Medium Vans	2,100 < x < 3,500	393	4	100	N/A	40	1,355
Large Vans	≥ 3,500	45	66	N/A	N/A	n/a	N/A
4x4	Min. 3,200	205	75	N/A	N/A	73	N/A
HGVs	Min. 7,000	N/A	2	N/A	N/A	N/A	N/A

4.14 WWU requested for the PCD to enable potential hydrogen vehicle acquisition. However, due to limited cost data - with the available data indicating it is very expensive - and the uncertainty regarding its availability, we consider electric vehicles the most suitable ZEV option for this PCD.

Baseline cost allowances

4.15 All network companies subject to the PCD submitted forecast costs and volumes in their consultation responses. The quality and consistency of these submissions varied, however, our review of the resubmitted data identified clear commonalities and allowed us to group vehicles into six weight-based categories, based on the improved granularity of the data.

4.16 Although we were able to create common vehicle categories, there were some variations in vehicle type (eg weights and models of vehicles considered available) and network company procurement methods (eg leasing or purchasing). However, these were within a reasonable range and did not undermine comparability. Additionally, we observed variations in unit costs across submissions, with a small number of significant outliers, however the underlying data provided sufficient consistency to enable robust benchmarking. As set out below, we have accounted for these challenges in our approach.

4.17 To ensure consistency and efficiency, we applied a common set of unit rates based on the lowest observed costs for leasing and purchasing across vehicle categories. By using the lowest observed costs as the benchmark, we are encouraging all networks to aim for the most efficient procurement practices. This sets a clear expectation that costs should reflect best-in-class performance rather than average or inflated figures. This approach is underpinned by the improved clarity and comparability of the resubmitted data. These are set out in Table 2.

Table 2: Common unit costs for leased and purchased vehicle types (£, 2023/24 prices)²⁹

Vehicle category	Lowest Unit Costs - Leased	Lowest Unit Costs - Purchase
Car (ZEV)	[REDACTED]	[REDACTED]
Small Vans (ZEV)	[REDACTED]	[REDACTED]
Medium Vans (ZEV)	[REDACTED]	[REDACTED]
Large Vans (ZEV)	[REDACTED]	[REDACTED]
4x4 (ZEV)	[REDACTED]	[REDACTED]
HGVs (ZEV)	[REDACTED]	[REDACTED]

4.18 Based on these unit costs, we calculated the total PCD allowance each network company will receive using the proposed volumes (Table 3). This total figure is the incremental cost difference between a comparative internal combustion engine (ICE) vehicle and a ZEV. Network companies will receive the non-incremental cost as part of their baseline funding, so that if it is unfeasible for them to purchase or lease ZEVs, they can instead purchase or lease an ICE vehicle.

Table 3: Total incremental ZEV funding provided to the network companies for RIIO-3 (£, 2023/24 prices)

Company	RIIO-3 funding for ZEVs
NGN	[REDACTED]
SGN	[REDACTED]
WWU	[REDACTED]
NGET	[REDACTED]
SPT	[REDACTED]
Cadent	[REDACTED]
Total	[REDACTED]

4.19 We will request and monitor data through RRP to ensure actual costs are understood and any discrepancies are justified. This will support the development of a potential output in RIIO-4.

²⁹ Pre application of efficiency challenges. Lease costs are set on an annual basis, while purchase costs reflect the full vehicle price. Funding (Table 3) covers both the purchase of a ZEV and the annual lease cost over the lease term during RIIO-3.

Applied to

- 4.20 We have decided to apply the PCD to all network companies except National Gas and SHET. SHET is excluded due to a lack of applicable outputs. SHET's exclusion is a change from the position outlined in our Draft Determinations and follows company provision of revised data, with no applicable outputs. Due to its leasing procurement approach, SHET's baseline funding for vehicles and transport has been reviewed as part of our Closely Associated Indirects (CAI) assessment and is significantly lower than the figure quoted in our Draft Determinations regarding the Operational Transport Emissions Reduction PCD. For more information regarding our CAI assessment, see Chapter 5 in the ET Annex.
- 4.21 One trade association sought clarity on why National Gas was excluded from the PCD in our Draft Determinations. We have excluded National Gas because it did not submit any costs for ZEVs in its business plan and had no operational transport EAP commitment. National Gas agreed with our Draft Determinations position to exclude it from the PCD. It stated that, although it does not currently support the introduction of rigid ZEV targets, it remains open to transitioning to them when operationally viable.
- 4.22 National Gas was concerned about the lack of clarity regarding future access to funding, should circumstances change during RIIO-3. Should the position of National Gas change, it could apply for funding via the Small Decarbonisation Projects Re-opener or utilise the Decarbonisation Project Development UIOLI. For SHET, the CAI UIOLI allowance also provides some flexibility for it to increase ZEV volumes. National Gas and SHET's expenditure under their respective UIOLI allowances will be monitored. Additionally, we could consult on amendments to both National Gas and SHET's licence to add them to this PCD.
- 4.23 If National Gas and SHET were to roll out ZEVs during RIIO-3, we would expect them to adopt the efficient PCD unit costs if they are the same vehicle type, to ensure their fleet decarbonisation plans reflect best value for consumers. We also expect both network companies to continue working with their ISGs to strengthen and deliver commitments and maintain transparency.
- 4.24 Progress for all network companies will be monitored through AERs, and we will engage proactively with National Gas and SHET to support improvements in their ZEV rollouts.

Network Asset Risk Metric (NARM)

Purpose: To quantify the benefit to consumers of the network companies' asset management activities.

Benefits: Ensure that network companies remain safe, secure and reliable and that network risk is kept within reasonable bounds.

Final Determinations summary

Design	Final Determination	Draft Determination
Output type	PCD (evaluative), ODI-F and ODI-R.	Same as FD.
Measuring outputs	Baseline Network Risk Outputs defined using a long-term risk measure.	Same as FD.
Setting outputs and baseline funding	Baseline allowance with associated Baseline Network Risk Outputs.	Same as FD.
The Funding Adjustment and Penalty Mechanism	RIIO-2 approach but with a Hybrid Funding Approach adaptation of the Clearly Identifiable mechanism. The Hybrid Funding Approach combines upfront certainty with in-period assessments, ensuring funding and any penalties are aligned with actual performance.	Change - Adaptation of RIIO-2 approach.
Improving the NARM Framework	Development of standardised NARM methodologies and consistent data collection practices.	Same as FD.
Delivery date	31st March 2031.	Same as FD.
Applied to	ET (apart from NGET ³⁰), GD and GT.	ET, GD and GT.
Associated document	The NARM Handbook.	Same as FD.

NARM Incentive Decision and associated PCD Framework for NGET

4.25 The NARM framework ensures network companies have sufficient allowances to invest appropriately in asset resilience.³¹

³⁰ The only part of this decision which applies to NGET is requirements to continue to provide us with NARM data through the RRP's and to deliver actions under the NARM improvement framework.

³¹ Please see our Draft Determinations (p. 41) for details on how the NARM mechanism works: [Draft-Determinations-Overview-Document.pdf](#)

- 4.26 For NARM to be effective, it must be underpinned by a robust baseline plan that prioritises the most critical assets. However, we have concerns around NGET's current approach to prioritising interventions and delivery, which could risk under- or over-funding essential resilience investment. To address this, NGET will not be subject to the core NARM framework during RIIO-3. Instead, funding will be provided through PCDs with tighter controls and enhanced scrutiny. NGET must still implement improvements under the 'improving NARM framework' (described below) to enable it to adopt the full NARM model in the next price control. This is set out in Chapter 2 of the NGET Annex.

Final Determinations rationale and Draft Determinations responses

Measuring Outputs

- 4.27 We have decided to retain our Draft Determinations position on measuring Baseline Network Risk Outputs (BNROs) using a long-term risk measure. Twenty respondents commented on this proposal. Most respondents, including all network companies, supported this approach including the application of the NARM framework across sectors, noting that it improves consistency and helps better reflect long-term consumer value. We agree. Using a long-term risk measure for BNROs provides a robust basis for asset management decisions and supports fairer funding adjustments that more accurately reflect actual risk reduction.
- 4.28 An energy supplier group supported the principle of NARM but argued that the framework has become overly complex, recommending a return to simpler asset-category targets. While simplicity is important, we maintain that detailed NARM reporting is necessary to ensure transparency, accountability and consumer protection. However, we recognise the need to reduce burden and will explore ways to streamline reporting.

Setting Outputs and Baseline Funding

- 4.29 To set baseline allowances, we have decided that BNROs will be associated with full project costs – this is consistent with our Draft Determinations. This includes costs associated with interventions on secondary assets (ie non-NARM Assets) as well as indirect costs, such as project management. For ET and GT, where costs are reported and assessed at project level, the alignment is straightforward with each network company's BNRO set out in their respective company annexes.
- 4.30 For the GD sector, the link between baseline funding and outputs is more complex. This is because costs are derived from totex allowances rather than project level reporting. To ensure consistency between BNROs and baseline

allowances, we will update our view to reflect the final inputs used to calculate BNROs. This includes ensuring that the share used to disaggregate totex allowances into NARM, accurately reflects the final workloads on which BNROs are calculated.

- 4.31 Any adjustment will only affect the relative NARM share of totex and will not change overall totex or other outputs, such as PCDs.
- 4.32 As in our Draft Determinations, our decisions on network companies' BNROs are based on their business plan proposals and reflect any adjustments to asset intervention volumes to align with baseline funding allowances.
- 4.33 As we set out in our Draft Determinations, to ensure that BNROs, baseline allowances, Outturn Network Risk Output (ONRO) and associated outturn allowances are comparable, we require network companies to recalculate their BNROs to reflect their Final Determinations volumes, which will be used to create the Network Asset Risk Workbooks (NARWs).
- 4.34 In their Draft Determinations responses, some network companies commented that the proposed BNROs required refinement. They called for formal readjustment periods based on Final Determinations and RIIO-2 close out to ensure accurate BNRO values.
- 4.35 We will work closely with network companies to recalculate their BNROs and align baseline allowances based on our Final Determinations, and we will consult on this in late spring 2026. We have set out the process for this in the 'Next Steps' section. Table 4 below summarises the results of our assessment and the indicative BNROs for each network company. A more detailed breakdown, along with the associated baseline allowances, can be found in the company annexes.

Table 4: Baseline Network Risk Outputs (R£m) per network company

Sector	Company	Network	Draft Determination	Change from DD to FD	Final Determination
ET	SSEN-T	SHET	1,437.0	-3.2	1,433.8
ET	SPEN	SPT	10,455.0	3,851.8	14,306.8
GT	National Gas	National Gas	13,686.8	-16.1	13,670.7
GD	Cadent	EoE	234.6	144.1	338.0
GD	Cadent	Lon	204.0	218.2	407.5
GD	Cadent	NW	318.8	169.4	468.3
GD	Cadent	WM	123.5	95.7	196.1

Sector	Company	Network	Draft Determination	Change from DD to FD	Final Determination
GD	NGN	NGN	3,070.8	17.4	3,060.0
GD	SGN	Sc	626.9	244.2	836.2
GD	SGN	So	801.8	756.4	1,558.3
GD	WWU	WWU	2,557.8	-64.8	2,493.0

The Funding Adjustment and Penalty Mechanism

- 4.36 We have decided to adopt a Hybrid Funding Approach for the NARM Funding Adjustment and Penalty Mechanism³² (Option 3 below), which refines and builds on the RIIO-2 Clearly Identifiable Over/Under Delivery (CIO/UD) mechanism. This is a change from our Draft Determinations position, which proposed continuing with the RIIO-2 mechanism as amended in June 2025.³³ We believe this change provides for greater scope for an in-period assessment of NARM funding needs, thereby addressing stakeholder feedback, particularly around clarity, proportionality, and predictability.
- 4.37 Network companies have consistently supported (including in their consultation responses to SSMD and Draft Determinations) a risk-based approach to asset management but raised concerns about the practical implementation of the Funding Adjustment and Penalty Mechanism. This included concerns about unclear thresholds, justification criteria, evidence requirements and the risk of retrospective assessments. They have also cited specific challenges with the Unit Cost of Risk (UCR)³⁴ approach and the additional regulatory burden and uncertainty introduced by the CIO/UD mechanism. Network companies called for a transparent, proportionate, and predictable framework that supports effective delivery and reflects the original intent of the RIIO-2 mechanism.
- 4.38 Following our Draft Determinations, some network companies have presented options to refine the Funding Adjustment and Penalty Mechanism to address these concerns. We have engaged with stakeholders through working groups to

³² This is mechanism by which network companies are held to account for their BNROs' delivery during the price control period.

³³ Please see our CI decision document for details: [NARM handbook updates: threshold for justifying Clearly Identifiable Over or Under Delivery and related amendments | Ofgem](#)

³⁴ Unit Cost of Risk (UCR) is the ratio of baseline funding (£) to the monetised risk benefit (R£) that a project is expected to deliver. It provides a benchmark for assessing whether funding adjustments are cost-reflective and aligned with consumer value.

consider the options presented, which are set out below. We then assessed these options against a set of criteria, which reflected stakeholders' concerns.

4.39 Options considered:

- **Option 1: RIIO-2 Funding Mechanism (proposed at Draft Determinations)** - This option rolls over the RIIO-2 approach, which adjusts funding at RIIO-3 close out based on the UCR calculated for each Risk Sub-Category, with a Clearly Identifiable Mechanism for under and over delivery.
- **Option 2: Volume-Based Funding Mechanism** - This option would adjust funding at RIIO-3 close out based on the volume of interventions delivered against each asset category.
- **Option 3: Hybrid Funding Mechanism (Final Determinations)** - This option builds on the RIIO-2 mechanism by refining the Clearly Identifiable Mechanism. This would adjust funding for under and over delivery based on the type of project or programme of work undertaken. Funding will either be adjusted based on pre-agreed scalars such as risk or volume or applied based on bespoke assessments. It combines ex ante certainty with in-period assessment with the introduction of a delivery review during the price control.

4.40 We have assessed these options against five criteria, reflective of the key issues raised by stakeholders:

- Risk-based approach - Does the option maintain alignment with asset risk principles and consumer value?
- Transparency – Are the rules and thresholds clear and predictable for stakeholders?
- In-period flexibility – Can the mechanism adapt during the price control period to reflect delivery changes?
- Proportionality – Does the approach balance regulatory burden with benefits for consumers?
- Certainty at close out – Will companies have confidence in how adjustments will be applied at the end of RIIO-3?

Table 5: Our qualitative evaluation of the options

Criteria	Option 1: RIIO-2 Mechanism	Option 2: Volume-Based Mechanism	Option 3: Hybrid Mechanism
Risk-based approach	Strong alignment	Limited alignment	Strong alignment
Transparency	Partial alignment	Partial alignment	Strong alignment

Criteria	Option 1: RIIO-2 Mechanism	Option 2: Volume-Based Mechanism	Option 3: Hybrid Mechanism
In-period flexibility	Limited alignment	Limited alignment	Strong alignment
Proportionality	Limited alignment	Strong alignment	Partial alignment
Certainty at close out	Partial alignment	Strong alignment	Strong alignment

- 4.41 While our Draft Determinations proposal (Option 1) maintains a strong risk-based foundation, we accept that it does not fully address stakeholder concerns about flexibility and proportionality, as it relies heavily on close out reviews, which stakeholders highlighted creates uncertainty and regulatory burden.
- 4.42 We think Option 2 offers simplicity and lower burden but raises concerns about disconnecting funding from risk-based principles. Stakeholders also highlighted that it does not account for complex projects, where changes cannot be tied back to volumes, and it lacks responsiveness to delivery changes in period.
- 4.43 Finally, we think Option 3, which combines ex ante certainty with in-period assessment, performed best against the assessment criteria. It improves transparency and responsiveness while managing burden, and ensures proportionality of the NARM Funding Adjustment and Penalty Mechanism. We believe it strengthens the link between funding and delivery and reduces reliance on bespoke close out reviews.
- 4.44 Since our Draft Determinations, we have used working groups to present the hybrid approach to stakeholders and get feedback. The TOs were supportive and welcomed the proposed solution to address CIOD/UD assessment issues. GDNs however expressed a preference for developing an approach that enables the CIOD/UD UCR threshold to operate as originally set out in RIIO-2 Final Determinations.
- 4.45 We have decided to implement Option 3 (the Hybrid Mechanism) as part of the RIIO-3 NARM Funding Adjustment and Penalty Mechanism as we consider it to be the most suitable approach for addressing the concerns raised by all sectors, and for the mechanism to achieve its purpose.
- 4.46 This approach also supports a fair and predictable close out process and will allow us to work with industry in RIIO-3 to provide our view on deviation from targets in-period. This will ensure that the final assessment of delivery is well understood and should lead to greater confidence in the mechanism and its outcome.

- 4.47 The following sections include: further rationale for the Hybrid Mechanism based on lessons learned from RIIO-2; key design features of the Hybrid Mechanism; and improvements to the overall NARM framework.

Lessons from RIIO-2 and rationale for the Hybrid Mechanism

- 4.48 Our experience with the RIIO-2 NARM amendments has directly informed the development of the Hybrid Mechanism approach. The in-period amendment introduced during RIIO-2 increased reliance on the CIO/UD mechanism at close out, shifting the framework towards a more ex post assessment model. While this was necessary to ensure cost reflectivity, it also introduced challenges where project or programme UCRs deviated from expectations. Specifically, we believe it will lead to a resource-intensive close out process, and network companies also believe it will create greater uncertainty for them regarding funding adjustments and penalties.
- 4.49 To address these issues, we committed to strengthening in-period reporting and monitoring. Network companies have provided views on CIO/UD projects, including associated costs and risk, as part of their Year 4 RRP submissions. This enhanced reporting will help reduce the number of projects requiring detailed assessment at close out by enabling earlier identification of delivery risks. Collaborative development of tools such as materiality thresholds will further support this shift, allowing for more proportionate and targeted regulatory oversight.
- 4.50 These lessons have reinforced the value of a Hybrid Mechanism approach for RIIO-3. By combining structured in-period assessment with a simplified close out process, we aim to reduce regulatory burden, improve predictability, and ensure funding adjustments remain closely tied to consumer value.

Key design features of the Hybrid Mechanism.

Approaches to adjusting funding for under and over delivery

- 4.51 The Hybrid Mechanism approach recognises the different types of projects, schemes, and programmes of work across the three sectors and applies tailored methods for adjusting funding where under- or over-delivery occurs. This contrasts with the current RIIO-2 mechanism, which uses a uniform, one-size-fits-all approach. By differentiating adjustments, this Hybrid Mechanism approach ensures they are cost-reflective and proportionate to the nature of the work. We will use the term 'project' throughout this section, to describe all different types of projects, schemes and programmes of work across sectors.

- 4.52 Where a project focuses on one type of asset (or several of the same type), the work involved is relatively uniform. This makes it easier to measure delivery using clear metrics— in this case the number of interventions completed, or the amount of risk reduced. As these metrics tend to have established cost relationships, we expect funding adjustments to be calculated using simple formulas which are linked to these metrics.
- 4.53 By contrast, projects involving multiple asset types often have complex interdependencies and varied cost drivers, making formula-based adjustments less reliable and not necessarily reflective of the level of under- or over-delivery that has occurred. Adjustments to funding for these projects will therefore be determined through a bespoke assessment at the NARM mid-period review or at RIIO-3 close out, using simplified or full Engineering Justification Papers (EJPs), depending on materiality.

Mid-period assessments

- 4.54 To support this, we will introduce a mechanistic in-period review point to allow for the assessment of complex and high-value projects that fall outside the Clearly Identifiable (CI) threshold.³⁵ This reduces our reliance on bespoke close out reviews and provides earlier clarity on delivery and funding adjustments, helping to manage uncertainty and improve confidence in the mechanism.

Reasonability tests

- 4.55 Funding for projects adjusted using risk or volume metrics will be subject to a reasonability test. This test applies both percentage and absolute cost thresholds to ensure that the adjusted baseline allowance remains within a reasonable range of the actual costs incurred. If the adjustment falls within this range, it will be applied based on the relevant metrics. Where the adjustment sits outside the range, the project will undergo further review before any funding changes are confirmed.

Improving the NARM framework

- 4.56 We have decided to retain our Draft Determinations position on improving the NARM framework, including the introduction of common NARM methodologies, Engineering Guidance Documents (EGDs), and Information Gathering Plans

³⁵ The CI threshold is set as a percentage deviation from target, based on the UCR. Where delivery falls outside this threshold, it is subject to bespoke assessment rather than the automatic NARM Funding Adjustment and Penalty Mechanism. See paragraphs 4.44 – 4.46 of our Draft Determinations for more detail: [Draft-Determinations-Overview-Document.pdf](#)

(IGPs), and expanding the scope of NARM assets alongside new licence conditions to support standardisation and transparency.

- 4.57 We received 16 responses regarding our Draft Determinations position on improvements to the NARM framework. Most network companies and other stakeholders supported the strategic objective to improve the NARM framework including the development of common methodologies and sector-wide consistency. Respondents welcomed the introduction of IGPs and EGDs, noting that these could improve data quality and comparability across sectors. This aligns with our Draft Determinations view that a more consistent and transparent framework will strengthen regulatory outcomes and support better consumer value.
- 4.58 While stakeholders broadly supported the ambition of the proposals to improve the NARM framework, some raised concerns about complexity and proportionality, warning that additional requirements could add burden without clear consumer benefit.
- 4.59 We recognise these concerns and are satisfied that our proposed improvements focus on standardisation and transparency rather than introducing overly prescriptive requirements. By phasing delivery and working collaboratively with network companies, we will ensure implementation remains proportionate and avoids unnecessary burden. These steps will deliver clear consumer benefits through improved data quality and more consistent reporting.
- 4.60 Some network companies also emphasised the need for clear guidance and early engagement, including specific clarity on audit requirements (coverage, frequency and evidence expectations), as well as guidance on IGP structure, penalties and cost treatment. They also raised concerns about how scope expansion would be managed across sectors and stressed the importance of consistency while preserving flexibility in asset management. Three other stakeholders reinforced this point; highlighting the importance of continuous improvement, incorporating forward-looking resilience metrics and clarifying expectations around system consequences.
- 4.61 We agree that scope expansion should be proportionate for each sector, and we recognise that coverage may be more advanced in some sectors than others. We will continue to assess the case for including further asset classes at a sector-specific level, based on consumer benefit. As set out in our Sector Specific Methodology Consultation (SSMC), for ET, we believe there is an opportunity to include further asset categories into NARM for RIIO-4. Through the RIIO-3

process, we have identified Complex Distribution Systems (CDS) as an area of work which could be included in NARM for GD, and we expect GDNs to develop methodologies for CDS for RIIO-4. See the Secure and Resilient supplies section in the GD Annex for further detail.

- 4.62 Several respondents also questioned the decision of expanding asset categories before addressing perceived core NARM issues, relating to the adjustment mechanism.
- 4.63 We believe our decision to refine the funding adjustment mechanism, and the introduction of the option for in-period assessment (as set out in the above section on the NARM Funding Adjustment and Penalty Mechanism) address these concerns. This approach simplifies the framework, reduces unnecessary complexity, and provides greater transparency on how funding adjustments will operate under RIIO-3. Any future expansion of asset categories will only be considered where it demonstrably delivers consumer value. Therefore, we are confident that these measures strike the right balance between addressing existing challenges and ensuring any future changes enhance consumer value.
- 4.64 In alignment with our SSMD, we will work with network companies to implement an audit process for compliance with IGPs and EGD. This may need to be done by an entity independent of the network company and include requiring the licensee to procure independent inspections.
- 4.65 Our present view is that we would require, on a sample basis, annual audits (both site based and office based as appropriate), covering some, or all, of:
- Accuracy - how consistently are subjective elements of asset condition measured, in line with the EGD;
 - Completeness - that the licensee is submitting all data required by the NARM; and
 - Timeliness - are inspections occurring in a timely manner to ensure data is sufficiently reflective of the actual condition.

Next steps

Recalculating BNROs and finalising baseline allowances

- 4.66 In Table 6 below, we set out the process for recalculating the BNROs and finalising baseline allowances. For RIIO-2, the process to agree the final NARWs took approximately a year. This was due to data alignment issues. The table below provides a clear timeline to work to, in which we will aim to resolve any issues earlier with the network companies. We expect the final versions of the NARWs to be submitted to us by the end of March 2026. The NARWs will then be

consulted on. If the final submission has not been received by the deadline, then we may confirm the BNROs and baseline allowances published in these Final Determinations or consult on any changes to such levels to account for uncertainty in the current values.

Table 6: Process for recalculating the BNROs and finalising baseline allowances

Step	Explanation	Deadline
Agree input values	To ensure that final BNROs and baseline allowances properly reflect our Final Determinations, with network companies and agreeing with us relevant model data inputs ahead of model runs. This will include intervention volumes and may include risk distributions and other data as necessary.	January 2026
Model runs and first submission	Network companies should run their models with the agreed model inputs and submit a first draft of the BNROs along with any necessary explanatory or supporting information to us. There will then be a period allowing for re-runs of the model where necessary.	February 2026
Final submission	Network companies should run their models and submit their final BNROs along with any necessary explanatory or supporting information to us for approval.	March 2026
Consultation	Before issuing the NARWs, we will consult for a period of no less than 28 days. If a final submission has not been received by the deadline, then we may confirm the BNROs and baseline allowances published at Final Determinations; or consult for a period of no less than 28 days on any changes, to such levels to account for uncertainty in the current calculations.	April 2026
Decision	The final NARWs will be published on Ofgem’s website following consultation.	May 2026

NARM Handbook development

- 4.67 We will amend the NARM Handbook to reflect our decision to proceed with the Hybrid Mechanism, providing clarity and transparency on how the RIIO-3 NARM funding mechanism will operate, and will publish this as part of the formal licence consultation in December. This will provide more clarity on our approach to managing the degree of in-period assessment, the threshold for reasonability tests, licence implications, and the robustness of the UCR metric.
- 4.68 We will hold working groups in January and February 2026 to discuss proposed updates, followed by a formal consultation in late spring 2026. This process mirrors the approach taken for RIIO-2 and is necessary for two key reasons:

- it allows us to incorporate findings from RIIO-2 delivery and cost data to refine the asset categories of NARM funding and set thresholds for reasonability tests. We believe this will improve the correlation between allowances and UCR, helping ensure that funding adjustments more accurately reflect the consumer value of the associated monetised risk; and
- it ensures the Handbook is aligned with the final RIIO-3 NARWs, which network companies will submit in early spring 2026.

Physical Security PCD - ET and GT

Purpose: To ensure network companies deliver physical security upgrades at sites designated Critical National Infrastructure (CNI).

Benefits: Allowances are returned to consumers in the event of changes to the CNI list that mean network companies are not required to deliver the associated outputs.

Design	Final Determination	Draft Determination
PCD type	Evaluative.	Same as FD.
Output to be delivered	Upgrades at sites designated CNI.	Same as FD.
Allowance	Baseline allowance for each network company.	Same as FD.
Ability to change during RIIO-3	See Resilience Re-opener, in Chapter 6 of this document.	Same as FD.
Delivery date	31 March 2031.	Same as FD.
Applied to	ET and GT.	Same as FD.

4.69 The only overarching design areas that stakeholders commented on was the output to be delivered. We have decided to retain our Draft Determinations position on all other aspects of the design highlighted in the summary table above, to ensure it will deliver its intended benefits for consumers.

Final Determinations rationale and Draft Determinations responses

Outputs to be delivered

4.70 We have decided to retain our Draft Determinations position to attach a PCD to the funding for physical security upgrades at CNI sites. The scope of this PCD covers network companies upgrading the physical security of their CNI sites, for which baseline allowances have been set. If a site is removed from the DESNZ

CNI list and no longer requires a physical security solution, the network company must return any unspent allowance in full.

- 4.71 Most of the 13 stakeholders that commented on this output supported its need, and recognised its role in protecting CNI. We agree that attaching a PCD remains appropriate given its importance to ensuring delivery of CNI. The other comments that we received largely related to clarification of its scope and implementation, which we address below.
- 4.72 Several stakeholders, including NPG, NGET, SGN, and a regional body emphasised the need for flexibility (eg maintaining a re-opener) if DESNZ updates the CNI designations or if non-designated but critical sites emerge. Another stakeholder also challenged the exclusion of some assets from the CNI list, which it argued are critical as these assets provide electricity to CNI sites. As we set out in our Draft Determinations, the requirement to implement physical security solutions at CNI sites is externally determined - this has not changed. Network companies have worked with government and the National Protective Security Authority (NPSA) to identify CNI sites and implement measures to enhance their physical security where required. We provide network companies with allowances to implement the physical security enhancements recommended by DESNZ and NPSA. With regards to non-CNI designated sites, we note that the required level of physical security for these sites is already provided for within baseline allowances, which were set following detailed cost assessment of business plan submissions.
- 4.73 Stakeholders also sought clarity on the funding treatment where designations change during the price control period. The Resilience Re-opener (see Chapter 6), will enable adjustments to allowances where government or NESO require network companies to undertake resilience-related activities not anticipated at the start of RIIIO-3.

Other policy areas

Climate resilience

Purpose: To ensure network companies consider the risks and impacts of climate change to their networks and take appropriate steps to proactively invest in mitigation and adaptation.

Benefits: Ensure that security of supply is maintained, reducing the risk of service disruptions and ensuring networks remain reliable, even in adverse weather conditions.

Final Determinations rationale and Draft Determinations responses

- 4.74 We have decided that the network companies' Climate Resilience Strategies meet the requirements set out in the Business Plan Guidance - in line with our Draft Determinations position.
- 4.75 The 16 stakeholders that responded (from across the energy sector) broadly supported our approach, recognising the importance of scenario planning, stress testing, and adaptive strategies to manage evolving climate risks. Many emphasised the need for clear, timely guidance and alignment with existing frameworks to reduce duplication and reporting burdens. Network companies are actively progressing the activities outlined in their strategies and we will continue to work with stakeholders during RIIO-3 to develop guidance that strengthens risk understanding and demonstrates how climate resilience is embedded in operations. In line with our SSMD expectations, this includes annual updates on climate scenario planning, stress-testing for high-impact, low-probability hazards, and adaptation pathways - from 2027/28. We will work with stakeholders to develop the licence condition to reflect the decision above and on the associated guidance. This includes:
- ensuring that the guidance is practical, achievable, and aligned with agreed timescales; and
 - enhancing regulatory reporting on climate resilience.
- 4.76 We plan to consult on the guidance and licence condition next year.
- 4.77 There was strong backing for the Resilience Re-opener mechanism, though several parties suggested its scope should be expanded to accommodate future climate investment needs. Concerns were raised about funding adequacy and the impact of disallowed climate-related investments on deliverability, while others highlighted the importance of cross-sector collaboration and independent expert review in determining investment needs. The Resilience Re-opener, as set out in Chapter 6, allows for additional funding to be requested where the appropriate resilience-related government triggers are met. We will continue to work with network companies to ensure the mechanism remains responsive to emerging risks.
- 4.78 Overall, stakeholders broadly agreed that climate resilience strategies must remain flexible, well-supported, and responsive to long-term challenges. We re-emphasise the importance of these areas during RIIO-3 and the ongoing responsibility of network companies to identify and address climate-related risks.

- 4.79 To support the delivery of activities outlined in the Climate Resilience Strategies, network companies have received baseline funding for areas like flood mitigation to strengthen resilience against climate impacts (see the relevant company annexes), alongside the Resilience Re-opener.

Workforce resilience

Purpose: To encourage network companies to strategically plan what actions may be necessary to ensure their ongoing resilience to workforce constraints.

Benefits: Ensure that network companies are able to operate effectively without being impacted by current or future constraints in the workforce.

Final Determinations rationale and Draft Determinations responses

- 4.80 In line with our position at Draft Determinations, we have decided that the network companies' Workforce Resilience Strategies meet the requirements set out in our SSMD. The majority of respondents that responded in this area, agreed with our view, highlighting the strategies' ongoing and long-term importance to bolster collaboration between the network companies, and with industry and government partners.
- 4.81 Several network companies used their Draft Determinations responses to highlight additional workforce attraction and retention initiatives, and work on metrics and data sharing. We welcome the additional initiatives and expect network companies to publicise these, as well as progress against their strategies. Strategies should also be reviewed and kept updated on companies' websites, which is part of their licence obligation.
- 4.82 Several respondents welcomed our acknowledgement of the challenges faced across sectors, and noted additional sector and region-specific workforce issues. Some network companies asked that these be given appropriate consideration in our funding decisions. We agree that sector and regional differences are important, and our cost assessment approach has taken these into account where supported by clear evidence.
- 4.83 A small number of respondents expressed a neutral view on our position. Of these, one broadly supported our view that the Workforce Resilience Strategies were adequate, but noted a greater emphasis on equality, diversity and inclusion (EDI) would be welcome. We acknowledge the importance of EDI, and agree that it should remain a focus for the network companies. While we are not proposing changes at this stage, we will continue to monitor how network companies embed EDI in their workforce strategies.

- 4.84 Another respondent agreed on the need for network companies to focus on upskilling their workforce and set out additional specific proposals for training and safety initiatives. We agree that workforce development is critical. Where companies have provided clear evidence of need and value, we have considered this in our cost assessment. We encourage network companies to continue developing robust proposals in this area.
- 4.85 Cadent agreed that the Workforce Strategies met the requirements set out at SSMD, but raised concerns that Ofgem's messaging on accelerating gas network depreciation created uncertainty for the current and prospective workforce, risking exacerbating hiring and retention challenges. We note the concern, but do not agree that our depreciation policy should be revised on this basis. Our approach reflects the long-term strategic direction for the sector. We will continue to engage with stakeholders to ensure messaging is clear and consistent.
- 4.86 NGET agreed with Ofgem's view of the Workforce Strategies, and sought additional funding for new workforce attraction and retention initiatives. We have not included these costs in our assessment, but consider that the overall funding framework, including a re-opener for Business Support Costs, will allow NGET to recover these costs if baseline allowances are not sufficient.

Supply chain resilience

Purpose: To encourage network companies to strategically plan what actions may be necessary to ensure their ongoing resilience to constraints in the supply chain.

Benefits: Ensure that network companies are able to operate effectively without being impacted by current or future constraints in the supply chain, which may detrimentally impact consumers.

Final Determinations rationale and Draft Determinations responses

Supply chain resilience strategies

- 4.87 We have decided that the network companies' Supply Chain Resilience Strategies meet the requirements set out in our SSMD, consistent with our position at Draft Determinations. All stakeholders who responded on this agreed with our assessment that the strategies met these requirements.
- 4.88 In our Draft Determinations, we also noted that none of the network companies had proposed new measures in relation to supply chain resilience, and we sought views on whether more could be done, including opportunities for collaboration.

The majority of network companies disagreed with our assessment, and several highlighted existing or proposed initiatives aimed at improving supply chain resilience. We acknowledge that network companies are taking significant steps to address supply chain challenges. We will continue to work closely with industry and government to consider whether further action is needed - including through the initiatives specifically highlighted by stakeholders, such as the DESNZ and the industry-led Electricity Networks Sector Growth Plan and the Electricity Products Supply Chain Council, where we are actively involved in shaping and supporting the electricity sector's response to supply chain challenges.

ET development funding approach and Advanced Procurement Mechanism (APM)

4.89 We have decided to provide development funding via two mechanisms: the Pre-Construction Funding (PCF) and the Advanced Procurement Mechanism (APM), in line with our position at Draft Determinations. For further detail on these mechanisms, see the ET Annex.

5. Business Plan Incentive (BPI)

- 5.1 In this chapter we provide an overview of our BPI decisions and set out some of the key points raised by stakeholders on the BPI, and our responses to these points. Further details on the individual company performance is set out in the company-specific annexes.
- 5.2 The purpose of the BPI is to drive benefits for consumers by rewarding companies who develop high-quality, ambitious business plans that embed efficiency and represent value for money for the consumer. Where companies submitted Business Plans that failed to meet the minimum requirements or had poorly justified, low confidence costs or low-quality plans or commitments, they would incur a penalty.

Results of the BPI

Table 7: Final Determination BPI results (basis points (bps) of RoRE, unless stated)

Company	NGET	SHET	SPT	Cadent	NGN	SGN	WWU	National Gas
Stage A	0	0	0	0	0	0	0	0
Stage B - Comparative	-0.2	0.0	0.1	4.4	-0.4	-7.6	-5.3	0.0
Stage B - Bespoke	1.6	-0.1	6.4	1.4	0.4	0.4	0.8	-2.0
Stage C - Clarity	0.0	1.4	1.4	4.2	-1.4	-2.8	-2.8	5.6
Stage C - Commitments	-1.3	1.3	3.9	0.7	4.9	-1.6	-1.0	3.3
Total bps	0.2	2.6	11.8	10.6	3.4	-11.6	-8.3	6.8
Total 5-year monetary equivalent (£m)	0.7	4.9	12.5	26.1	2.0	-16.8	-4.9	9.7

BPI assessment

- 5.3 In our Draft Determinations we confirmed we followed the three stages of the BPI assessment that we had set out in the Sector Specific Methodology Decision (SSMD) and would determine BPI rewards and penalties using basis points (bps) of RoRE against the equity portion of the RAV.
- 5.4 The monetary value of the BPI has been calculated and is set out in the table above. The annual value has been calculated ex ante as the assessed total reward or penalty measured in basis points of RoRE (capped at ± 60 basis points), multiplied by the equity portion of the forecast NPV-neutral RAV for the respective year, based on the relevant notional gearing assumption for each licensee.
- 5.5 The NPV-neutral RAV for the purpose of the BPI has been derived from the baseline RIIO-3 totex set in this Final Determination, excluding RIIO-3 re-

openers, RIIO-2 re-openers (eg ASTI, LOTI and MSIPs), use it or lose it allowances (UIOLI), opex escalator, ongoing efficiency and RPEs, but including volume drivers with baseline volumes. The total monetary value of the BPI for the RIIO-3 price control period is the sum of the respective annual values.

5.6 The following sections set out our Final Determination decision for the assessment of company performance against each stage of the BPI.

BPI Stage A assessment - minimum requirements

5.7 The purpose of Stage A is to assess whether a business plan contains the minimum amount of information required for us to set the price control effectively. It only focuses on the completeness of the submission. Failing to pass Stage A will result in a company receiving a penalty of 20bps of RoRE.

5.8 We have decided to implement our Draft Determinations position that all companies have passed the minimum requirements. Further information on responses to individual company performance against BPI Stage A assessment can be found in the relevant company annexes, where applicable.

Table 8: Final Determination BPI Stage A results

Company	Draft Determination (bps)	Final Determination (bps)
NGET	0	No change
SHET	0	No change
SPT	0	No change
Cadent	0	No change
NGN	0	No change
SGN	0	No change
WWU	0	No change
National Gas	0	No change

BPI Stage B assessment - costs

5.9 The purpose of Stage B is to assess the extent to which cost submissions in the business plans are efficient and well justified. As set out in our Draft Determinations and SSMD, we have used two distinct methodologies to assess comparatively assessed costs and bespoke costs. Where a network company is responsible for more than one network, Stage B is assessed and calculated at the level of each network, consistent with the cost assessment process.

5.10 The overall maximum reward for Stage B is +40 bps of RoRE, while the maximum penalty is -20 bps of RoRE.

- 5.11 Following the Draft Determinations we have received updated cost information and identified an error in the GD cost model. As a consequence, the results of the BPI Stage B assessment have changed. This can be seen in Table 9 and Table 10.
- 5.12 Further information on changes and stakeholder responses to individual company performance against the BPI Stage B assessment can be found in the company-specific annexes.

Table 9: Final Determination BPI Stage B Comparative results

Company	Draft Determination (bps)	Final Determination (bps)
NGET	7.1	-0.2
SHET	-1.7	0.0
SPT	-3.2	0.1
Cadent	-4.9	4.4
NGN	37.3	-0.4
SGN	-8.1	-7.6
WWU	-6.2	-5.3
National Gas	-0.4	0.0

Table 10: Final Determination BPI Stage B Bespoke results

Company	Draft Determination (bps)	Final Determination (bps)
NGET	-1.4	1.6
SHET	-0.9	-0.1
SPT	3.8	6.4
Cadent	0.7	1.4
NGN	0.3	0.4
SGN	0.1	0.4
WWU	-0.3	0.8
National Gas	-2.0	No change

BPI Stage C assessment - quality

- 5.13 The purpose of Stage C of the BPI is to assess the overall quality of a company's business plan. The Stage C assessment is split into two components; the clarity of the business plan, and the ambition and credibility of the commitments included in the business plan.

- 5.14 Both components of Stage C have been assessed qualitatively using the balanced scorecards in Annex 5 of the Business Plan Guidance (BPG).³⁶ The assessment of clarity accounts for up to ± 7 bps of RoRE and the assessment of commitments accounts for up to ± 13 bps RoRE. This assessment therefore results in a maximum reward or penalty of ± 20 bps of RoRE.
- 5.15 For the BPI Stage C clarity assessment, we have decided to implement our Draft Determinations position and therefore there is no change in results to the companies. For the BPI Stage C Business Plan Commitments assessment, through our consultation we received information that has meant we have changed our position on the results for NGET, Cadent and NGN.
- 5.16 The results of the BPI Stage C assessment can be seen in Table 11 and Table 12
- 5.17 Further information on changes and stakeholder responses to individual company performance against the BPI Stage C assessment can be found in the company-specific annexes.

Table 11: Final Determinations BPI Stage C Clarity results

Company	Draft Determination (bps)	Final Determination (bps)
NGET	0.0	No change
SHET	1.4	No change
SPT	1.4	No change
Cadent	4.2	No change
NGN	-1.4	No change
SGN	-2.8	No change
WWU	-2.8	No change
National Gas	5.6	No change

Table 12: Final Determination BPI Stage C Business Plan Commitment results

Company	Draft Determination (bps)	Final Determination (bps)
NGET	-2.6	-1.3
SHET	0.0	1.3
SPT	2.6	3.9
Cadent	0.7	No change
NGN	6.2	4.9

³⁶ Annex 5: [RIIO-3 Business Plan Guidance | Ofgem](#)

Company	Draft Determination (bps)	Final Determination (bps)
SGN	-1.6	No change
WWU	-1.0	No change
National Gas	3.3	No change

Final Determinations decision and rationale – Stage C balanced scorecard weightings

- 5.18 In our Draft Determinations we set out, and consulted on, the weightings we used for the underlying criteria/rating set out in the 'Clarity scorecard' and the 'Business Plan Commitments scorecard'. To calculate the bps for each component of Stage C, we weighted each underlying criteria/rating equally. The relative weights against each component of Stage C are set out in our Draft Determinations Overview Document.³⁷ We said that we considered that weighting the criteria/ratings equally provides an objective, transparent and fair way to calculate an in-the-round result.
- 5.19 We received 13 responses to our question on this (OVQ11). Nine of those responses broadly agreed or were neutral to our position and agreed that applying equal weightings provided a transparent and objective way of evaluating Stage C and ensured simplicity and consistency across submissions.
- 5.20 A small number of responses disagreed with our position. Of those that disagreed, two responses thought only the 'Business plan commitment' criteria weightings should change with both stating the 'Deliverability' criteria should be weighted more highly, due to the additional complexity in assessing the practicality and feasibility of implementing the commitments made. One of these responses also thought that the 'stretching performance' criteria should also be weighted more highly, to reflect the frontier performance of companies. The third response that disagreed thought that 'Accessibility and conciseness' and 'clarity of information that supports the demonstration of value to consumers' should be weighted more highly as they are more important to the overall purpose of the Business Plan and objectives of RIIIO-3. They also thought 'New company proposals' should be given a lower weighting.
- 5.21 Following the consultation on the Draft Determinations position we have decided to retain our position, and will continue to calculate the BPI Stage C results using equally weighted criteria for the Clarity and Business Plan Commitments scorecards. This is because, as per the majority of the responses, equally

³⁷ Page 59: [Draft-Determinations-Overview-Document.pdf](#)

weighted criteria/ratings ensure a transparent, consistent and simple way to evaluate Stage C. Having considered the responses that did not agree with our position, we do not consider that the weight of arguments for change outweigh the arguments for ensuring a transparent, fair, consistent and simplistic way of calculating the results.

Final Determinations decision and rationale - Stage C commitment outcome weightings

5.22 In the Draft Determinations we set out, and consulted on, the weights of the three Outcomes used to assess BPI Stage C Business Plan Commitments. We set out different weights for the three sectors, including accompanying rationale as to their weights. The weights for each sector are shown in Table 13.

Table 13: 'Outcome' sector weightings used for Stage C - Business Plan Commitments assessment

RIIO-3 BPI Stage C Business Plan Commitment 'Outcome'	ET weights	GT weights	GD weights
Infrastructure fit for a low-cost energy transition	40%	20%	30%
Secure and resilient supplies	40%	50%	40%
High quality of service for regulated firms	20%	30%	30%
Total	100%	100%	100%

5.23 We received 14 responses to our question on this (OVQ12). The majority of responses broadly agreed or were neutral to our position and agreed with the weightings and rationale applied to each Outcome for each sector. A small number of responses disagreed with our position. Of those that disagreed, two responses thought that all the sectors should have equal Outcome weightings, citing the fact that the weightings only became available in our Draft Determinations, and therefore don't reflect the equal weight companies had placed on them within their business plans. One response thought that a common set of weightings should be taken across all the sectors and that this should be the weightings applied to the ET sector, as this reflects the short to medium term focus areas, which are consistent across all sectors.

5.24 Following the consultation on the Draft Determinations position we have decided to retain our position, and use the weights for each Outcome across the sectors as set out in Table 13. We have decided this as we consider our rationale set out in Draft Determinations to still be valid, and do not think the alternatives put forward to be persuasive. We also note that in the BPG we said that we would set

the relative weights for each of the three Outcomes used to assess the business plan commitments following the review of the Business Plans and that as a result the weighting of the Outcomes may differ across the sectors.³⁸

Wider responses to the BPI assessment

- 5.25 As part of the responses to the Draft Determinations consultation on the BPI Stage C weightings, we received some responses in respect to the wider application of the BPI.
- 5.26 In particular, NGN commissioned an assessment of our approach to the BPI. It argued that the BPI primarily incentivises companies to submit ambitious cost forecasts but gives little weight to companies' track records in delivering both cost efficiency and high service quality. It also said that our Stage C assessment lacked objectivity and consistency, which it said undermined the assessment's credibility and value. It set out a number of options for change for the BPI, ranging from adjusting the balance between Stage B and Stage C (with greater emphasis on Stage C), incorporating track record into the incentive or setting differentiated incentives rates based on the companies' business plan level of ambition.
- 5.27 A different stakeholder thought that the Stage B assessment should be strengthened and Stage C (and in particular the 'Clarity' element) is given too large a weighting, given it is a subjective assessment. There were some other stakeholders who also had concerns over the subjectivity of Stage C.
- 5.28 WWU raised a concern over duplicating negatives across criteria resulting in double penalties.
- 5.29 Following the consultation on our Draft Determinations position, we do not propose to make any changes to our approach to the BPI assessment. We consider the methodology set out in our Sector Specific Methodology Decision and Business Plan Guidance delivers on the intended outcomes of the BPI. This is to support the development of high-quality, ambitious business plans that embed efficiency and represent value for money for the consumer, and delivers on the objectives that we set for the BPI:
- Business plan information that enables us to set the price control effectively;
 - Ambitious cost forecasts; and
 - Ambitious output proposals that go beyond baseline expectations.

³⁸ Para 9.53: [RIIO-3 Business Plan Guidance.pdf](#)

- 5.30 In setting these objectives we also adopted simplicity and transparency criteria for the incentive and proportionality in the required level of resource intensity throughout the regulatory process.³⁹
- 5.31 We have considered the arguments put forward in relation to adjusting the balance between Stage B and Stage C, incorporating track record into the incentive and setting differentiated incentives rates based on the companies' business plan level of ambition. We will continue to explore the role and structure of the BPI in future price controls. However, for RIIO-3, as the design of the incentive was established ahead of the submission of Business Plans allowing companies to respond accordingly, any change to the design of the BPI now would have no impact on company behaviours. We therefore do not agree that changes to the BPI approach should be made at this stage.
- 5.32 In relation to some of the concerns raised on the subjective nature of Stage C, we clearly set out the guidance and balanced scorecard that would be followed when assessing the Business Plans, and a consistency check was undertaken across companies and sectors to ensure we were being consistent in our assessment. This was done to ensure transparency and consistency in rating companies for the purposes of Stage C.
- 5.33 On the concern over duplicating negatives across criteria resulting in double penalties, as per one of our five principles set out in the SSMD,⁴⁰ the rationale for issuing rewards or penalties under the BPI should be consistent with decisions made for other elements of RIIO-3. Therefore, where we issue a penalty, or reward, this is reflective of decisions made in other elements of RIIO-3.

³⁹ Paras 7.6 and 7.7: [RIIO 3 SSMD Overview.pdf](#)

⁴⁰ Para 7.28: [RIIO 3 SSMD Overview.pdf](#)

6. Managing uncertainty

- 6.1 This Chapter sets out our decisions for most of the cross-sector UMs that will apply to all sectors during the RIIO-3 price control. Business plans and price controls are based on a set of assumptions on what is required over the forthcoming period. There may be significant uncertainty over some of these assumptions, and where appropriate it may be better to use mechanisms that adapt certain elements of the price control during the period.
- 6.2 While UMs help to protect consumers and companies from significant variations between forecast and actual costs they can add to the complexity of the framework. Therefore, where possible, we have sought to reduce the need to use UMs and include as much as possible in upfront baseline allowances. However, where they are needed we want them to be streamlined and, where appropriate, automatic in their delivery. Here, we may use volume drivers or UIOLI allowances. In some instances however, the size and complexity of the uncertainty may require a process of re-opening elements of the price control settlement to decide on the appropriate allowance and/or output.
- 6.3 Details on cross-sector UMs that relate to innovation, cyber resilience, and data & digitalisation are in the relevant chapters in this document. In our SSMD, we decided to retain the following cross-sector pass-throughs: Business Rates (Prescribed Rates), Ofgem Licence Fee Costs (for GD and GT), and Pension Scheme Established Deficit.⁴¹ For initial company allowances related to cross-sector pass-throughs, see the company annexes. For details of our proposals for UMs which only apply to a single sector, see the sector annexes. For details of our proposals for UMs which only apply to a single company, see the company annexes.

Default re-opener design parameters

- 6.4 It is important for us to consider general re-opener design to help deliver a coherent regulatory package, reduce complexity and to support the planning for administering them during the price control period.
- 6.5 The decisions set out below are the default positions that will apply to the design of most RIIO-3 re-openers. They do not necessarily apply to all re-openers. The specific design characteristics for each re-opener are set out in their individual sections.

⁴¹ For details of our rationale, see Chapter 8 of the RIIO-3 SSMD Overview Document.

Table 14: Decisions on default re-opener design parameters

Design	Final Determination	Draft Determination
Default materiality threshold	Adjustments to allowed revenue will only be made if the proposed adjustment as assessed by the Authority, when multiplied by the TIM rate, exceeds 0.5% of annual average ex ante base revenue.	Same as FD.
Re-opener windows	There will be two, one-week re-opener windows, in April and October of each year of RIIO-3. We retain the provision for the Authority to direct additional windows should it be required.	Change - we proposed various re-opener windows during RIIO-3 at different points each year.
Application of Real Price Effects (RPEs)	Our default is to not apply RPEs to re-opener mechanisms. However, where a specific re-opener mechanism meets certain criteria (where the typical project is a network infrastructure investment and can be expected to have a construction phase spanning three or more regulatory years), we have decided to apply RPEs to all adjustments.	Not specifically stated.
Application of Ongoing Efficiency (OE)	We will take a case-by-case approach in relation to applying OE to re-opener mechanisms.	Not specifically stated.
Eligibility periods	Re-openers will only cover costs incurred from the start of RIIO-3 only (1 April 2026).	Where stated in individual re-openers, same as FD.

Final Determinations rationale and Draft Determinations responses

Default materiality threshold

- 6.6 We have decided to retain the default position for RIIO-3 that re-opener adjustments to allowed revenue will only be considered if the proposed adjustment, when multiplied by the TIM rate, exceeds 0.5% of annual average ex ante base revenue. This is unchanged from RIIO-2 and reflects our view that a materiality threshold is important to prevent overuse of re-openers and ensure companies manage some cost risk.
- 6.7 Over half of the 14 consultation responses supported this approach, noting that the default materiality threshold is proportionate and helps minimise unnecessary re-openers. Among those who disagreed, some suggested that where individual re-openers do not meet the threshold but collectively they do, this should trigger a re-opener or be addressed at close-out. Others proposed that the threshold should only need to be exceeded once per re-opener over the price control. We

do not agree, as these approaches would undermine the intent of limiting re-opener use and encouraging cost management.

- 6.8 Several respondents argued for reducing or removing the threshold altogether, citing increased cost exposure, cumulative risk from multiple small projects, and the challenge of unforeseeable costs outside the company's control. Suggested alternatives included lowering the threshold to 0.1% of RoRE or 0.25% of base revenue, or relying on existing administrative checks acting as a threshold for application instead of a formal threshold. We do not agree. The current level strikes an appropriate balance between flexibility and risk management. In addition, the TIM provides some protection for network companies from unforeseen costs, and companies should be expected to manage some degree of risk.
- 6.9 Table 15 sets out the default materiality threshold for each network company. Where the default position is not followed, the applicable threshold for that re-opener, and our rationale, is discussed within that specific re-opener section. The application threshold given in the table below is the minimum actual or forecast delivery cost eligible for application under any re-opener mechanism to which the default materiality threshold applies. Any application with actual or forecast delivery costs below the threshold are ineligible under the relevant re-opener mechanisms. Unless stated in the individual re-opener mechanism decisions, the application threshold is assumed to be for a single project, rather than grouped projects. Further clarity may also be provided in the Re-opener Guidance and Application Requirement document.

Table 15: Default materiality threshold per network area

Licensee	Annual average ex-ante base revenue (23/24 prices)	Default Materiality Threshold – 0.5% of base revenue (23/24 prices)	TIM used in default Materiality Threshold	RIIO-3 Application Threshold (23/24 prices)
EoE	£872.9m	£4.4m	50%	£8.7m
LDN	£630.1m	£3.2m	50%	£6.3m
NW	£599.1m	£3.0m	50%	£6.0m
WM	£452.7m	£2.3m	50%	£4.5m
NGN	£590.5m	£3.0m	50%	£5.9m
SC	£459.3m	£2.3m	50%	£4.6m
SO	£983.4m	£4.9m	50%	£9.8m
WWU	£623.0m	£3.1m	50%	£6.2m

Licensee	Annual average ex-ante base revenue (23/24 prices)	Default Materiality Threshold – 0.5% of base revenue (23/24 prices)	TIM used in default Materiality Threshold	RIIO-3 Application Threshold (23/24 prices)
National Gas	£1288.7m	£6.4m	39%	£16.5m
NGET	£2658.2m	£13.3m	25%	£53.2m
SHET	£1313.0m	£6.6m	25%	£26.3m
SPT	£809.5m	£4.0m	25%	£16.2m

Re-opener windows

6.10 We have decided to schedule two, one-week windows, in April and October of each year. At Draft Determinations, we proposed various re-opener windows across all five years of RIIO-3 and at various points throughout each year.⁴²

6.11 This decision follows a holistic consideration of the number and timing of re-opener windows across the full suite of re-opener mechanisms in all three sectors. Our aim is to:

- ensure that windows are scheduled to fit business needs; and
- enable efficient assessment and timely approval of applications.

6.12 We think that having two, one-week windows, in April and October of each year achieves these aims most effectively. It is also simple and transparent. These timings sit between the network companies' core regulatory reporting cycle, which closes in July, and our review of this data - a period which represents an intense resource demand for both us and regulated companies. This approach helps spread the workload more effectively across the year.

6.13 Network companies will be permitted to submit applications under specified UMs during those windows. However, we have also decided to retain the provision for the Authority to direct additional windows on some re-opener should this be required due to a change in circumstances or unexpected challenges or policy developments. If no other windows are specified, network companies may only make an application under an Authority triggered re-opener where the Authority has so directed in accordance with the relevant licence condition.

6.14 The individual re-opener sections set out which windows is applicable for each re-opener, and/or if an Authority triggered reopener applies.

⁴² The precise proposals were set out in each individual re-opener section of our Draft Determinations.

Application of Real Price Effects (RPEs) to re-openers

- 6.15 We have decided that our default position is not to apply RPEs to re-opener mechanisms. While input prices may be volatile, we expect network companies to manage the risk through careful planning, procurement, and contracting. They should bear any residual cost input price risks which can be factored in as part of any re-opener applications. Re-openers also still provide general inflation (CPI-H) protection for network companies.
- 6.16 At Draft Determinations, we did not explicitly discuss whether RPEs would apply to re-opener mechanisms. We stated that we do not consider that a re-opener or an additional adjustment mechanism is appropriate for managing cost input uncertainty. The implication was that the RPE adjustment would not apply to allowances awarded through re-opener mechanisms.
- 6.17 Through the consultation responses, two GDNs, SPT and NGET proposed that RPEs should be applied to re-openers and UMs. Specifically, NGET proposed RPE application to UMs that set the level of spend for a future year, as well as all re-openers for multi-year projects or projects where allowances are being determined for a future year.
- 6.18 Having reviewed consultation responses and following further consideration, we remain of the view that cost input uncertainty on allowances set through re-openers is generally lower than for baseline allowances. This is because re-opener allowances are typically set over shorter time horizons and are more likely to be based on incurred or final tendered costs.
- 6.19 For some re-openers we recognise that the cost input risk on a typical project may be more similar to that of a baseline project. These are re-openers where the typical project is a network infrastructure investment with construction phases spanning three or more regulatory years (eg a project that starts in Year 2, carries on into Year 3, and completes in Year 4). For re-openers most likely to meet these criteria, we have decided to apply RPE adjustments to allowances.
- 6.20 The re-openers that we consider meet the criteria for applying RPEs are:
- Cross sector: Decarbonisation and Environmental Policy (DEP) Re-opener.
 - ET: Load Re-opener; Non-Load Re-opener; CSNP Re-opener.
 - GT: Gas Strategic Planning Re-opener; Funded incremental obligated capacity Re-opener; Asset Health Re-opener.
- 6.21 When setting allowances through the re-openers listed above, to which RPEs will apply, we will ensure that this is properly accounted for so there is no double accounting for cost input price inflation.

Application of Ongoing Efficiency (OE) to re-openers

- 6.22 At SSMD, we recognised in our decision that re-opener applications are very heterogeneous in scope and scale and so a case-by-case approach is warranted in respect of applying OE.⁴³ We maintain this position.
- 6.23 Two network companies provided views on the application of OE to re-openers. Cadent did not support applying OE to re-openers, pass-through or indexation UMs. In principle it agreed that it may be appropriate to apply OE to some expenditure allowed via UMs, but that the ability to make OE improvements is not consistent across cost areas and UMs are structured in different ways. It noted that some re-opener claims are for costs already incurred, meaning it wouldn't be possible to deliver OE gains on these costs. We agree it may be appropriate to apply OE in some cases and will consider this as part of the re-opener application. We also agree that OE should only be applied to cost forecasts within re-openers, not costs already incurred at the point of submission.
- 6.24 NGET proposed that further consultation be undertaken before any decision of whether to apply OE to UMs, other than mechanistic PCDs on which it is already applied in RIIO-2. We note that each re-opener decision, is subject to a separate consultation process, providing network companies and other stakeholders a reasonable opportunity to provide feedback on our case-by-case opinion on the application of OE to re-opener funding requests.

Eligibility periods

- 6.25 Our Final Determination is that unless explicitly stated otherwise, the eligibility start date for a re-opener mechanism will be 1st April 2026. This means that any costs incurred prior to this date will be out of scope of the mechanism.
- 6.26 In our Draft Determinations, where we specified an eligibility start date for costs within scope of a re-opener mechanism, we specified that it will be the start of RIIO-3. Some respondents suggested earlier start dates to cover costs incurred during the RIIO-2 period. These responses and our consideration of them is set out in the relevant re-opener mechanism sections.

⁴³ [RIIO 3 SSMD Overview.pdf](#), paragraphs 9.43 to 9.45.

Cross-sectoral UMs

Decarbonisation and Environmental Policy (DEP) Re-opener

Purpose: To provide a means to amend the price control in response to changes connected to the meeting of decarbonisation or environmental targets, which influence the costs and outputs of network companies.

Benefits: To allow for necessary amendments within the RIIO-3 period rather than waiting until the settlement of the subsequent price control.

Final Determinations summary

Design	Final Determination	Draft Determination
Name	Decarbonisation and Environmental Policy (DEP) Re-opener.	Change - Net Zero Re-opener.
UM type	Re-opener.	Same as FD.
Scope	A wide range of decarbonisation and environmental policy developments, such as changes in national or local government policy, recommendations made by the RESPs in GD, or changes in the pace or nature of the connection of new low carbon generation and the uptake of low carbon technologies.	Same as FD.
Authority triggered	Authority triggered only.	Same as FD.
Network company re-opener windows	N/A.	Same as FD.
Materiality threshold	Default materiality threshold (see earlier in this Chapter).	Same as FD.
RPEs	Applied to all projects (See earlier in this Chapter).	Change – not specified.
Applied to	ET, GD and GT.	Same as FD.

Final Determinations rationale and Draft Determinations response

Name

6.27 We have renamed the Net Zero Re-opener, as it was referred to in RIIO-2 and at RIIO-3 Draft Determinations, to the Decarbonisation and Environmental Policy (DEP) Re-opener. SPT believed the name 'Net-Zero Re-opener' was misleading given our proposed changes to its scope and requested the re-opener become the broader environmental re-opener it had proposed (in its business plan). We agree

that a new name can help clarify the work that may be undertaken through this re-opener, including the slight scope revisions for RIIO-3.

Scope

- 6.28 We have decided to expand the scope of the DEP Re-opener to include environmental developments. By this we mean new or amended legislative requirements that relate to the network company's impact on the environment that are contained within, or could have been contained within, its EAP.
- 6.29 SHET and SPT stated that while they are generally supportive of the functionality of this re-opener, the scope of the mechanism was unclear. For example, SHET stated that it had challenges in utilising this re-opener to its full extent in RIIO-2 due to uncertainty in its scope. Our position is that the expanded scope of the re-opener will allow for a wider interpretation of work that can fall under it, providing better assurance that relevant work will be funded.
- 6.30 We consider expanding the scope to include changes to environmental legislation and recommendations made by the RESP in GD is suitable to allow network companies to respond to these relevant and material changes, if they occur. The scope will still cover changes in national or local government decarbonisation policy and/or changes in the pace or nature of the connection of new low carbon generation and the uptake of low carbon technologies, as in RIIO-2.

Authority triggered only

- 6.31 We have decided that the re-opener should be Authority triggered only. SPT stated that the re-opener should also be able to be triggered by network companies. In our SSMD, we decided to retain the re-opener as Authority triggered only given the type of changes that it would be used to address. This approach ensures that it is only used when it is the most appropriate mechanism for a given change, and where we are satisfied with the certainty and impact of that change and its suitability to be funded via consumers.

Materiality threshold

- 6.32 We have decided that materiality threshold will be set at the default materiality threshold of 0.5% of ex ante base revenue. National Gas and SHET argued that this materiality threshold may be challenging to meet for some necessary investments. However, we consider this level of threshold strikes an appropriate balance in protecting network companies and customers. It ensures that we and network companies only deal with changes that are sufficiently material and where the costs of using the mechanisms are clearly outweighed by the expected benefits.

Co-ordinated Adjustment Mechanism (CAM) Re-opener

Purpose: To facilitate the transfer of activities and associated revenues from one network company's price control to another.

Benefits: To protect consumer interests by enabling the reallocation of responsibility for, and revenue associated with, an output or project from one network company to another who can deliver that output or project with greater overall value for consumers.

Final Determinations summary

Design	Final Determination	Draft Determination
UM type	Re-opener.	Decided at SSMD.
Scope	Any applicable output where responsibility and the associated costs have been reallocated from one network company to another.	Decided at SSMD.
Authority triggered	Yes.	Same as FD.
Network company re-opener windows	None - can submit at any time.	Same as FD.
Materiality threshold	None.	Same as FD.
Applied to	ET, GD and GT.	Decided at SSMD.

Final Determinations rationale and Draft Determinations responses

Scope

6.33 We decided at SSMD that the CAM will continue to be used if we decide to reallocate responsibility (and the associated revenue) for an output from one network company to another where this can deliver greater overall whole systems value for consumers.

6.34 In its Draft Determinations response, SHET highlighted that we should do more to ensure the scope of the mechanism is clear and require a CAM impact assessment with each submission. We do not agree that an impact assessment will be necessary, but naturally our assessment of CAM submissions will include consideration of potential direct and indirect impacts of any decision.

Authority triggered

6.35 We have decided that the Authority will be able to trigger the re-opener as well as the network companies. We will also continue with the existing RIIO-2 policy that

a single network company cannot unilaterally apply to use the re-opener without the support of the partner network company.

- 6.36 Four respondents agreed with the position we set out at Draft Determinations, though some asked for further detail on how it would operate in practice. NGN also wanted further detail on how we would trigger the re-opener, but did not support our proposal, believing that it moves the re-opener away from being a voluntary network company-led mechanism. The use of the Authority trigger will be limited to where we have received a recommendation from the NESO, and we will consult before introducing any licence updates. We consider that the rationale to encourage the network companies to adopt whole systems strategic planning remains valid, particularly in advance of the full deployment of the soon to be established the NESO's system planning responsibilities. We disagree with NGN that our being able to trigger the re-opener undermines company agency over projects; the NESO-led approach to CAM just provides a fairer and more transparent method of triggering the adjustment.
- 6.37 SPT proposed that agreement should be reached between the NESO, the network company, and the partner network company ahead of a NESO recommendation to the Authority. We agree that network company buy-in to proposals will be important and is highly desirable.

Re-opener windows

- 6.38 We decided to remove the re-opener windows for the network companies to trigger the CAM. The network companies that commented on this area supported this. The removal of these windows will increase the flexibility and likelihood (as an application can be made at any time) of the mechanism being used.

Other design comments - Financial incentive

- 6.39 We will not introduce an incentive in this area, as proposed by Cadent and NGN.
- 6.40 In its Draft Determinations response, Cadent proposed a collaboration incentive to drive coordination and cooperation at an accelerated pace. We rejected this at SSMD (SSMD GD Annex, paragraph 2.29) because we did not think this proposal was robust enough and we have not changed our position.
- 6.41 In their Draft Determinations responses, Cadent proposed a collaboration incentive to accelerate coordination and cooperation, while National Gas argued for a positive incentive for companies that proactively identify and pursue CAM opportunities. These ideas were considered at SSMD and rejected because they lacked sufficient robustness and did not provide confidence that they would deliver value for consumers.

Decarbonisation Project Development (DPD) UIOLI - GD and GT

Purpose: To enable GDNs and National Gas to fund early design and pre-construction work for projects related to decarbonisation and undertake small decarbonisation facilitation projects.

Benefits: Ensures the GDNs and National Gas can flexibly fund decarbonisation projects and act quickly to respond to changing demands on the energy system from the energy transition.

Final Determinations summary

Design	Final Determination	Draft Determination
Name	Decarbonisation Project Development UIOLI.	Change - Net Zero and Re-opener Development (NZARD) UIOLI.
UM type	UIOLI.	Decided in our SSMD.
Scope	Small decarbonisation facilitation projects, including RESP-related projects in GD; shrinkage-related activities; and early development work for projects that network companies intend to bring forward under specific re-openers.	Same as FD.
Funding levels	0.5% of baseline totex: <ul style="list-style-type: none"> • Cadent: £36.42m • NGN: £8.28m • SGN: £19.94m • WWU: £9.28m • National Gas: £15.99m 	Change - inflation uplift from RIIO-2 levels.
Maximum spend per project	£2.5m.	Change - £2m.
Reporting	Annual RRP and additional requirements set out in the DPD Governance Document.	Same as FD.
Applied to	All GDNs and National Gas.	Same as FD.
Associated document	DPD Governance Document.	Same as FD.

Final Determinations rationale and Draft Determinations responses

Name

6.42 We have decided to rename the NZARD UIOLI, as it was referred to in RIIO-2 and in our Draft Determinations, as the Decarbonisation Project Development (DPD) UIOLI. We consider this name better reflects the new scope of the UIOLI, which

now includes shrinkage. Shrinkage is not limited to net zero objectives; it also addresses nearer-term decarbonisation ambitions, making the new name more accurate. By focusing on “decarbonisation”, the name signals a broader, adaptable approach that supports both immediate and long-term climate goals. Aligning terminology with other decarbonisation initiatives (eg the DEP Re-opener) also ensures consistency across our framework, helping stakeholders navigate our policies.

Scope and applied to

- 6.43 We have decided to keep the scope of the DPD UIOLI consistent with our Draft Determinations. It will apply to GDNs and National Gas, and will fund:
- small decarbonisation projects, including RESP-related projects in GD;
 - shrinkage-related activities; and
 - early development work for projects that network companies intend to bring forward under decarbonisation re-openers.
- 6.44 We received thirteen responses to our question on the design of the DPD UIOLI, and all stakeholders were broadly supportive of the scope of the allowance. SGN objected to the exclusive use of the DPD for additional Advanced Leakage Detection (ALD) rollout as it said these costs would be too material for the UIOLI. To clarify, the Small Decarbonisation Projects Re-opener can also be used to fund additional ALD funding, if necessary, as this is a shrinkage-related activity within its scope. Additionally, SGN requested that the scope of DPD UIOLI be expanded to explicitly include activity relating to Local Area Energy Plans (LAEPs). We confirm that we consider coordination and engagement activities that support the development of LEAPs can be funded via the existing scope of this mechanism, as they aim to drive decarbonisation regionally.
- 6.45 As ZEV charging infrastructure has been removed from the Operational Transport Emissions Reduction PCD, ZEV charging infrastructure can also be funded via the DPD UIOLI. Furthermore, given that National Gas is not included in the Operational Transport Emissions Reduction PCD, as outlined in paragraph 4.20 onwards, it could utilise this fund to access ZEV funding.
- 6.46 The full eligibility criteria for the DPD UIOLI will be outlined in the DPD Governance Document, which we will update ahead of RIIO-3.

Funding levels

- 6.47 We have decided to increase funding levels for GDNs and National Gas to 0.5% of baseline totex. This represents an increase of 80-90% from RIIO-2 levels, depending on the network company. This a change from our Draft Determinations

where we proposed an inflation-based uplift of approximately 25% (compared to RIIO-2).

- 6.48 All GDNs and a consumer group raised concerns regarding our proposed Draft Determinations funding levels. NGN suggested linking the allowance to base revenue, and recommended setting it at 0.35% of base revenue. We agree that an increase to the allowance is appropriate based on the high level of uncertainty in this space and the increased requirement for agile and flexible funding for RIIO-3. We also agree that linking the allowance to ex ante allowances ensures proportionality across the network companies. Other stakeholders did not provide specific views on the appropriate level of increase.
- 6.49 After calculating the allowances for each company at 0.35% of their base revenues, we concluded that this represented a broadly consistent level of funding to our Draft Determinations position. Based on stakeholder views that this level was insufficient, we considered it unlikely that it would enable network companies to effectively deliver the projects outlined in their business plans.
- 6.50 We have therefore based our decision on the funding proposals from network companies' business plans for projects they are looking to fund through the mechanism. Based on this information, we consider that 0.5% of baseline totex provides a sufficient allowance to enable the effective implementation of DPD projects for RIIO-3. Any unspent funding will be returned to consumers.

Maximum spend per project

- 6.51 We have decided to increase the maximum spend per project from £2m to £2.5m to reflect inflation since the start of RIIO-2.
- 6.52 National Gas and NGN proposed this increase, arguing that the £2m cap we proposed in our Draft Determinations effectively reduced the real value of funding. We consider it is important to retain a maximum spend per project to ensure that consumers are protected, by spreading the risk across different DPD projects, in case some projects funded by DPD do not reach fruition. However, we agree that this increase is appropriate to ensure that the maximum spend per project is not reduced in real terms and that gas network companies are not overly restricted in their spending for RIIO-3.

Small Decarbonisation Projects (SDP) Re-opener - GD and GT

Purpose: To allow gas network companies to undertake design and pre-construction work that is too material for the DPD UIOLI, and to progress small- to medium-sized decarbonisation projects.

Benefits: Enables GDNs and National Gas to progress small value, but high impact, decarbonisation work in an agile way.

Final Determinations summary

Design	Final Determination	Draft Determination
Name	Small Decarbonisation Projects (SDP) Re-opener.	Change - Net Zero Pre-Construction and Small Projects (NZASP) Re-opener.
UM type	Re-opener.	Decided in our SSMD.
Scope	Small- to medium-sized decarbonisation facilitation projects that are too material for the DPD UIOLI, including shrinkage activities, Digital Platform for Leakage Analytics (DPLA) for GDNs and RESP coordination costs for GDNs.	Same as FD
Authority triggered	Yes, Authority trigger only.	Decided in our SSMD.
Materiality threshold	£1m.	Same as FD.
Maximum spend per project	£100m.	Same as FD.
Applied to	GD and GT.	Decided in our SSMD.
Associated document	SDP Governance Document.	Same as FD.

Final Determinations rationale and Draft Determinations responses

Name

6.53 We have decided to rename the NZASP Re-opener, as it was referred to in RIIO-2 and in our Draft Determinations, as the Small Decarbonisation Projects Re-opener. We consider this name better reflects the scope of the re-opener, emphasising that it can fund projects supporting both nearer-term and long-term decarbonisation goals. For example, initiative such as shrinkage reduction, rollout of the Digital Platform for Data Analytics (DPLA) in GD, and biomethane support are not limited to net zero objectives. By focusing on “decarbonisation”, the name signals a broader, adaptable approach that underpins both immediate and future climate ambitions. Aligning terminology with other decarbonisation initiatives (eg the DEP Re-opener) also ensures consistency across our framework, helping stakeholders navigate our policies more easily.

Scope

- 6.54 We have decided to retain the scope proposed in our Draft Determinations for the SDP Re-opener. This will provide funding for small decarbonisation projects that are too material to be covered by the DPD UIOLI. Examples include shrinkage management activities, rollout of the DPLA for GDNs, and RESP coordination work for GDNs.
- 6.55 We received thirteen responses to our proposals regarding the re-opener, all of which were broadly positive about the proposed scope.
- 6.56 One consumer group noted that our Draft Determinations stated that network companies could not use the SDP Re-opener to fund strategic planning, which it considered inconsistent with the inclusion of RESP coordination work for GDNs. To clarify, that statement was intended to provide background context on our SSMD position. For the avoidance of doubt, activities for coordinating and engaging with stakeholders involved in the development of net zero-related strategic plans, such as the RESP, can be funded through the SDP Re-opener.
- 6.57 Our Draft Determinations outlined some business plan proposals that we considered would be outside the scope of the SDP Re-opener. SGN's ISG asserted that, while it recognised that it may be helpful for us to signal if projects are outside of the scope of uncertainty mechanisms, it would be concerned if we were rejecting proposals at this point based on the limited evidence presented. We accept this feedback, however if a proposal is made to us within business plans, particularly one with an Engineering Justification Paper (EJP) attached, we will provide feedback based upon this submission. Where this is the case, we have commented on these proposals in the GD company annexes.
- 6.58 NGN asserted that SDP should also include hydrogen projects to cover full scope of future net zero scenarios. We decided in our SSMD that development expenditure or capex for hydrogen transport infrastructure projects would not be in scope for RIIO-3, and this decision still applies. However, hydrogen blending projects will be in scope, if appropriate following the HSE safety case's conclusion and the establishment of a clear government directive for implementation.
- 6.59 SGN asserted that it may be appropriate for us to permit the GDNs to access the SDP Re-opener to cover the potential expanded scope of ALD, if the requirement arises for the DPLA. For the avoidance of doubt, additional ALD can be funded through the SDP Re-opener. For example, when the materiality of this additional ALD exceeds the £2.5m maximum spend per project for the DPD UIOLI.

- 6.60 Given that National Gas is not included in the Operational Transport Emissions Reduction PCD, as outlined in paragraph 4.20 onwards, it could utilise this re-opener to fund ZEVs.
- 6.61 The full eligibility criteria for the SDP Re-opener will be outlined in the SDP Governance Document, which we will update ahead of RIIO-3.

Materiality threshold

- 6.62 We have decided to retain the materiality threshold of £1m and the project maximum value of £100m for RIIO-3.
- 6.63 Cadent suggested increasing the £1m materiality threshold, but it did not provide an alternative level. All twelve other responses were either supportive or neutral on the materiality threshold for the SDP Re-opener. We consider this is still appropriate because a higher threshold would unnecessarily force networks to delay or bundle projects so as to not exhaust their DPD UIOLI allowances, thus slowing progress on decarbonisation objectives.
- 6.64 SGN questioned whether the project maximum value of £100m was appropriate, asserting that this could present a barrier for larger projects. All twelve other stakeholders were either supportive or neutral on the project maximum. We consider the £100m maximum remains appropriate as eligible projects that exceed this could instead be funded through the Decarbonisation and Environmental Policy Re-opener.

Resilience Re-opener

Purpose: To adjust allowances where government or NESO require network companies to undertake resilience-related activities not anticipated at the start of RIIO-3.

Benefits: Timely funding to support system security and compliance with national risk and resilience standards.

Final Determinations summary

Design	Final Determination	Draft Determination
UM type	Re-opener.	Decided at SSMD.
Scope	(i) Physical security (ii) Resilience-related activities arising from changes in government policy, NESO recommendations, engineering standards, emergency protocols, or actions from the National Risk Register.	Decided at SSMD, but discussed at FDs, given the level of DDs feedback.
Authority triggered	Yes.	Same as FD.
Network company re-opener windows	1–8 April 2028 and 1–8 April 2030 for physical security.	Same as FD.
Materiality threshold	Default materiality threshold (only for resilience activities, see Chapter 6).	Same as FD.
Applied to	ET, GD and GT.	Same as FD.

Final Determinations rationale and Draft Determinations responses

Scope

- 6.65 We have decided to retain the scope we decided at SSMD, covering the two areas of physical security and resilience-related activities triggered by government. This includes engineering standards, emergency protocols, or actions from the National Risk Register.
- 6.66 Network companies will be funded to deliver these activities. However, in making any decision under this re-opener, we will also consider whether it is appropriate for consumers to bear the costs, or whether they should be borne by the licensee. For example, it may be appropriate for the licensee to fund the activity if it has previously received funding to address the issue, either at specific sites or across its asset portfolio, or if the application relates to achieving compliance with standards that the licensee should already meet at the point of application.
- 6.67 Six of the ten respondents on this mechanism supported its introduction, but said the scope is too narrow. Four of these respondents suggested that it is widened to include climate resilience investments, supply chain and workforce resilience and physical security works for non-CNI sites.
- 6.68 We have set the scope of this re-opener to strike the right balance between ensuring companies can access funding for resilience activities, including for government mandated climate resilience activities, identified by UK Government as being in the national interest, and protecting consumers from paying for works

where the needs case has not been sufficiently established. We therefore do not consider it appropriate to extend the scope to cover physical security works for non-CNI sites. These activities are already provided for within baseline allowances, which were set following detailed cost assessment of business plan submissions. Similarly, we do not consider it necessary to include workforce and supply chain resilience within the scope of this re-opener. These areas are addressed elsewhere in the RIIO-3 package, including through:

- RPEs, which provide protection against material input cost changes, including labour and materials;
- baseline funding that supports workforce planning and retention; and
- the Advanced Procurement Mechanism (APM) in ET, which helps to mitigate supply chain risks in ET.

6.69 Two respondents proposed that the re-opener should cover proactive funding based on updated risk data rather than post-impact responses. We can confirm that this re-opener will cover government-mandated climate resilience activities. Changes in government policy in these areas are expected to be informed by both post-event reviews and forward-looking indicators of future risk (eg those set out in the National Risk Register).

Authority triggered

6.70 We have decided to retain the Authority trigger for all areas in scope of this re-opener, including resilience-related activities. This ensures flexibility to respond to unforeseen developments and maintain alignment with changes in government policy. Four respondents opposed this, advocating for licensee triggers for resilience-related activities. We do not think this is necessary. Timings of resilience-related activity needed under the scope of this re-opener are driven by government and are outside the control of network companies. We therefore consider that it is more efficient and flexible for us to work with government and the network companies to determine an appropriate re-opener window date once there is sufficient clarity and confidence in the scale and nature of policy change.

Network company re-opener windows

6.71 We confirm our Draft Determinations position of having two fixed windows for physical security only in April 2028 and April 2030. Three respondents supported fixed windows but requested clearer timing and alignment with evolving standards. We have further specified the re-opener window dates in the initial licence consultation to 1-8 April 2028 and 1-8 April 2030; providing certainty and

to allow efficient batching of licensees' applications and aid efficient use of regulatory resources.

- 6.72 Two respondents proposed aligning resilience activities submissions with the proposed physical security windows. We do not consider it appropriate to set fixed application windows for resilience-related activities, given the challenge of aligning timelines across a wide range of potential activities. By contrast, physical security is a well-established programme transitioning between price controls, so fixed windows for licensee applications remain appropriate.

Materiality threshold

- 6.73 We have decided to retain our Draft Determinations position that a materiality threshold is appropriate for this re-opener. As set out at Draft Determinations, applying a threshold ensures that only materially significant changes are considered, minimising regulatory burden and preventing overuse of re-openers for low-value activities. This approach is consistent with the default threshold applied across RIIO-3 uncertainty mechanisms and helps maintain proportionality in the framework.
- 6.74 We recognise the challenges associated with uncertainty around the costs of resilience activities that may be mandated by government during the price control. To address this, we have decided to apply the threshold at the submission level for this re-opener, thereby allowing licensees to group several projects together which all relate to different resilience activities under one submission. This reflects our expectation that applications are more likely to relate to programmes of work or grouped activities rather than large individual projects. Applying the threshold at submission level provides flexibility for companies to aggregate related costs, while maintaining consumer protection against immaterial adjustments.
- 6.75 Five respondents opposed applying a threshold to resilience works, with one arguing many projects are externally driven (eg by government) and below the threshold. Three respondents supported the threshold to prevent overuse of re-openers.
- 6.76 We agree with the three respondents that stated the need for the thresholds to prevent overuse of the re-opener. We recognise that many resilience activities may be externally driven, but future costs are unclear. We maintain the rationale for applying a threshold as set out above, but are clear in our decision that network companies may group together projects mandated by government to meet the materiality threshold.

Real Price Effects (RPEs)

Purpose: To adjust revenues to reflect changes in input prices experienced by companies over the price control period.

Benefits: The use of RPEs helps reduce network and consumer risk by reflecting material external cost fluctuations in companies' revenue.

Final Determinations summary

Design	Final Determination	Draft Determination
UM type	Price Indexation.	Decided at SSMD.
Scope - Cost categories and Index selection	Adjustments to cost allowances to account for changes to input prices in the cost categories of Labour and Materials (all companies) and Plant & Equipment (SHET and NGET).	Change - Same application of cost categories to sectors, but changes within the cost categories to specific indices.
<i>Scope - Index weighting</i>	Sector-specific (GD) or company-specific (GT and ET) weighted average RPE index. Annually profiled weighting adjustment will be applied each year to more accurately reflect changes in network companies cost structures during the price control period.	Change - proposed static weighting.
<i>Materiality threshold</i>	Retain a materiality threshold to determine which cost categories are included within the RPE index for each sector or company. No materiality threshold on the outturn value of the RPE adjustment.	Same as FD.
Application of indexation	Adjustments to network companies' allowances occur automatically on an annual basis.	Decided at SSMD.
Applied to	ET, GD and GT.	NA.

Final Determinations rationale and Draft Determinations responses

Scope - Cost Categories and Index selection

6.77 We have decided to retain the scope of RPEs to cover the same cost categories as set out at Draft Determinations - Labour and Materials for all companies and Plant & Equipment in ET (for SHET and NGET).

6.78 We received 14 responses on our proposed approach to RPEs. There was limited feedback on the scope of cost categories that will be covered in each sector. Some GDNs (Cadent and SGN) requested that Plant & Equipment be added as cost category in GD. This area was seen as important because of Plant & Equipment costs being a direct line item, and Plant & Equipment nearly reaching

the 10% materiality threshold. We disagree with this proposal because our materiality threshold is a clear criterion applied consistently across sectors. This category was excluded at Draft Determinations because it did not meet the materiality threshold criteria. At Draft Determinations, Plant & Equipment's share of Totex was 9.6%, and even with the new annually profiled weighting system it does not exceed 10% in any given year. We consider that applying the threshold strictly is important to maintain consistency and avoid selective inclusion of categories that fall short of the threshold. The evidence provided did not demonstrate the need for its inclusion. In addition, no new evidence was presented to show that Plant & Equipment costs are subject to materially different RPE pressures compared to other categories already included.

- 6.79 National Gas highlighted that RPEs should apply to its system operation function. We agree and can confirm that this was our intention at Draft Determinations, albeit this was not stated. For the avoidance of doubt, RPEs will apply to National Gas's system operation function in the same way as to other relevant cost areas. Retaining the application of RPEs to National Gas's system operation function aligns with the current approach in RIIO-GT2 and protects both consumers and National Gas from material external cost fluctuations. This approach protects both consumers and National Gas from material external cost fluctuations, which is a key objective of our RPE methodology.
- 6.80 Network companies commented on the choice of specific indices within cost categories. In GD, most GDNs requested that we exclude the timber index as it does not align with their cost base. We agree and will exclude this index. WWU suggested excluding the aluminium index. However, this was not supported by evidence; aluminium remains an important input for GDNs, so we will retain it within the mechanism.
- 6.81 In ET, NGET proposed including the BEAMA Industrial Electronics and BEAMA Large Power Transformers indices. NGET showed that historically these indices were more aligned with its expected RIIO-3 cost base than our proposed indices. We assessed these indices against our selection criteria.⁴⁴ They scored highly,

⁴⁴ The criteria for index selection is the same as proposed by CEPA at RIIO-ED2 criteria. There are two sets of assessment criteria: thresholds assessment criteria, covering accuracy and independence of indices, and detailed assessment criteria, covering simplicity, credibility, accuracy and the timeliness of publication and revisions. CEPA's 'RIIO-ED2: Cost Assessment - Frontier Shift methodology paper' report for further explanation of the assessment criteria. Available at: RIIO-ED2 Draft Determinations | Ofgem.

particularly with regards to credibility and timeliness. Therefore, we are introducing these indices in Electricity Transmission.⁴⁵

6.82 NGET and National Gas' suggested that contractor labour should be included, and weighted, within the Labour cost category. This is because they consider that otherwise this leaves them exposed to inflationary risks. We reviewed the evidence provided but found no strong rationale. Contractor labour costs are partially within network companies' control, and firms are well-placed to negotiate them in order to drive efficiency gains. Therefore, we have decided to continue to exclude contractor labour from the weighting of general labour cost.

Table 16: Input Price Indices Included in RPE

Index - Labour	Included In
AWE: Private Sector Index: Seasonally Adjusted Total Pay Excluding Arrears	GD/GT/ET
AWE: Construction Index: Seasonally Adjusted Total Pay Excluding Arrears	GD/GT/ET
4/CE/01 Civil Engineering Labour	GD/GT/ET
4/CE/EL/01 Electrical Engineering Labour	ET
BEAMA Electrical Engineering Labour	ET

Index - Materials	Included In
4/CE/24 Plastic Products (Including Pipes)	GD
3/S3 Structural Steelwork - Materials: Civil Engineering Work	GD/GT
FOCOS Resource Cost Index of Infrastructure: Materials FOCOS	GD/GT/ET
PPI INDEX INPUT - C Inputs into production of Manufactured products, excluding Climate Change Levy 2015=100	GD
3/58 Pipes and Accessories: Copper	GD
4/CE/25 Aluminium Products	GD
4/CE/26 Metal Structures	GD
NOCOS Resource Cost Index of Building Non-housing: Materials NOCOS	GD
Construction Output Price Indices	GD
4/CE/EL/02 Electrical Engineering Materials	ET

⁴⁵ The BEAMA Industrial Electronics and BEAMA Large Power Transformers indices used in this final determination is the release of October 2024, latest forecast will be used in the 'true-up' mechanism.

Index - Materials	Included In
BEAMA Industrial Electronics	ET
BEAMA Large Power Transformers	ET

Index - Plant & Equipment	Included In
70/2 Plant and Road Vehicles: Providing and Maintaining	ET (exc. SPT)
C28 Machinery and Equipment	ET (exc. SPT)
Purchased Plant Including depreciation and maintenance	ET (exc. SPT)
90/2 Plant and Road Vehicles Operatives and fuel are not included	ET (exc. SPT)

Scope - Index weighting

6.83 We have decided that the RPE index composition will be determined by:

- the weights for each cost category; and
- the weights of the individual indices within each cost category.

6.84 Each cost category is weighted according to its share of efficient costs, while the indices within each cost category are equally weighted. For GD, we have used the notional company cost structure; for Electricity and Gas Transmission we have used company-specific cost structures. This approach in our Draft Determinations is consistent with RIIO-2.

6.85 We received one response in this area, and no disagreement was expressed with the broad approach for setting the upfront weight at Draft Determinations. We consider this approach remains robust and uses the best available information.

6.86 In a change from Draft Determinations, we have decided to profile the weights of cost categories over the price control period. This means that each year the weighting varies to reflect network companies' evolving cost structures as the price control progresses. This change was suggested by NGET. We consider that profiling the weighting is preferred to the retaining the existing static weight approach because it better aligns the RPE mechanism with actual cost structures, reducing the risk of material misalignment seen under static weights. This will better protect both consumers and network companies from external cost fluctuations. The weights are pre-determined using the network companies' cost forecast in their business plans. At Draft Determinations, the ex-ante weights were fixed as an average of the price control years. For Final Determinations, the

weights remain ex ante, but they vary each year in reflection of the anticipated profile of expenditure in each category through the period.

6.87 The weights of cost categories for RIIO-3 are shown in the table below.

Table 17: Cost Category Weights by Network

GD	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031
Labour	59.9%	60.2%	60.2%	60.0%	60.0%
Materials	12.3%	12.3%	12.5%	12.5%	12.4%
Plant & Equipment	9.7%	9.5%	9.5%	9.6%	9.5%
Other	18.1%	18.0%	17.8%	17.9%	18.1%

National Gas (TO)	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031
Labour	30.1%	29.6%	29.0%	29.8%	30.1%
Materials	18.3%	18.6%	20.9%	20.8%	21.0%
Plant & Equipment	5.1%	5.0%	5.0%	4.9%	4.9%
Other	46.6%	46.9%	45.1%	44.5%	44.0%

National Gas (SO)	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031
Labour	41.8%	42.2%	43.9%	43.6%	45.0%
Materials	6.8%	6.7%	5.8%	5.8%	5.0%
Plant & Equipment	0.0%	0.0%	0.0%	0.0%	0.0%
Other	51.4%	51.2%	50.3%	50.7%	50.1%

NGET	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031
Labour	34.2%	33.4%	34.7%	36.5%	38.6%
Materials	33.9%	35.4%	33.3%	30.5%	27.7%
Plant & Equipment	15.9%	16.2%	15.4%	14.2%	12.9%
Other	16.0%	15.0%	16.7%	18.8%	20.8%

SHET	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031
Labour	60.1%	57.5%	55.3%	57.0%	68.9%
Materials	20.1%	21.4%	22.4%	21.6%	15.4%
Plant & Equipment	13.6%	14.5%	15.1%	14.5%	10.1%
Other	6.3%	6.6%	7.1%	6.9%	5.6%

SPT	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031
Labour	65.8%	67.8%	70.7%	72.9%	78.0%
Materials	19.1%	18.0%	16.3%	15.1%	12.3%
Plant & Equipment	6.9%	6.5%	5.9%	5.4%	4.4%
Other	8.2%	7.8%	7.0%	6.5%	5.3%

Materiality threshold

6.88 To determine which cost categories make up the RPE index, we have decided to apply a threshold to ensure that only cost categories with a material impact on total expenditure are included. We applied two materiality thresholds:

- Primary threshold: An RPE adjustment is applied if a cost category constitutes at least 10% of Totex.
- Secondary threshold: If a cost category accounts for at least 5% of Totex, an RPE adjustment is only applied if the expected real price movement in that cost category is expected to impact Totex by at least 0.5%.

6.89 This approach is consistent with Draft Determinations and with RIIO-2. We received three responses in this area. Several network companies continued to advocate for the removal of a materiality threshold, arguing that it appears arbitrary and could exclude key cost categories. We responded to similar comments at Draft Determinations and have not seen new evidence to suggest removal is in consumers' interest. The materiality threshold ensures that significant variations in input costs are captured, while incentivising network companies to manage price volatility effectively. We have addressed the comments raised by GDNs on including Plant & Equipment above.

6.90 We have also decided not to apply a materiality threshold on the outturn value of the RPE adjustment - retaining our Draft Determinations position. We remain of the view that no materiality threshold is needed on the potential adjustment level. This is because the ability to fully reflect actual external cost movements,

regardless of size, is central to the purpose of the RPE mechanism. Introducing a threshold would limit this responsiveness and accuracy reducing the effectiveness of the mechanism and potentially creating distortions over time. Our approach prioritises accuracy and responsiveness over arbitrary thresholds.

Application of RPE indexation

- 6.91 In our SSMD, we decided to broadly maintain the existing approach to RPEs for RIIO-3. This means that an upfront RPE allowance is set at Final Determinations, based on forecasts for the indices making up the RPE index. Allowances are then adjusted ('trued up') annually based on outturn differences between the CPIH and the RPE index. Our decision (above) to profile the weights of cost categories marks an evolution of this approach.
- 6.92 Cadent proposed a further refinement to our application of indexation, suggesting that we use forecast indices rather than long-term average growth assumptions. We have decided to retain our Draft Determination position. This means:
- For Materials and Plant & Equipment, we will continue to use long-term average growth rates.
 - For Labour, we will use the Office for Budget Responsibility's (OBR's) average earnings forecast, given its wide application across the economy.
- 6.93 While we recognise the potential benefits of using forecast indices to set a more accurate upfront allowance, there are no recognised forecasts available for them (except for labour, which we have used). We consider long-term average growth rates a reasonable approximation of the future trend, with the annual 'true up' under RPE indexation correcting any upfront forecasting error.
- 6.94 We also received responses on the application of RPEs to re-openers. We have decided that RPEs will be applied to re-opener mechanisms where the typical project is a network infrastructure investment with construction phases spanning three or more regulatory years. Our rationale is set out in the default re-opener design parameters section above in this chapter.
- 6.95 The RPE values for RIIO-3 are shown in the table below.

Table 18: Decision on RPE values for RIIO-3

	2026/2027	2027/2028	2028/2029	2029/2030	2030/2031
GDNs	0.67%	0.45%	0.56%	0.71%	1.00%
National Gas (TO)	1.04%	1.12%	1.33%	1.38%	1.52%
National Gas (SO)	0.18%	-0.02%	0.05%	0.16%	0.40%
NGET	1.91%	1.98%	1.94%	1.86%	1.85%
SHET	1.33%	1.27%	1.44%	1.51%	1.50%
SPT	1.06%	0.83%	0.87%	1.00%	1.26%

7. Gas depreciation

Introduction

- 7.1 In this Chapter, we set out our decisions for regulatory depreciation in the gas sectors. Regulatory depreciation is a key building block of the revenue that network companies are allowed as it determines the speed that the Regulatory Asset Value (RAV) is paid for by consumers.⁴⁶
- 7.2 Setting an appropriate speed of regulatory depreciation is particularly important in RIIO-3, given the uncertainty surrounding the future of gas. In all future scenarios we expect a decline in natural gas demand. This introduces the risk where a shrinking base of gas consumers may be left to bear the largely fixed costs of past and ongoing network investments. It also raises concerns among investors about a perceived risk of asset stranding.
- 7.3 Our decision on gas depreciation is summarised below, with more detail provided in Chapter 8 of the Finance Annex.

Gas depreciation

Purpose: Regulatory depreciation rates determine the speed that the RAV is repaid by consumers.

Benefits: Appropriate rates of depreciation help ensure that network charges are fair for both current and future consumers. Depreciation rates can reflect the economic and technical lives of the underlying assets.

Final Determinations summary

Design	Final Determination	Draft Determination
GD Depreciation	Accelerate depreciation for new assets only. Depreciate new assets by the net zero statutory target date.	Same as FD.
GT Depreciation	Retain the RIIO-GT2 45-year, front-loaded depreciation policy.	Same as FD.
Perceived stranding risk and RAV recovery	We will continue to set regulatory policy to ensure efficient firms can finance their functions, and that network assets are depreciated over their useful economic lives.	Same as FD.

⁴⁶ The RAV is the amount of investment in the network not yet paid for by consumers.

Design	Final Determination	Draft Determination
Interaction with government's work	We will support the government in its future of gas programme of work and adapt our policies to the outcomes, as appropriate, in line with our statutory duties.	Same as FD.

Final Determinations rationale and Draft Determinations responses

GD depreciation

- 7.4 We have decided to accelerate depreciation for new additions to the RAV, using a sum-of-digits approach with asset lives set so that the new investment is fully depreciated by the government's net zero target date, currently 2050. Depreciation policy for existing assets will remain unchanged from RIIO-GD2. Stakeholder views on our approach were mixed.
- 7.5 Seven stakeholders (including NGN and WWU) were broadly supportive of our approach, and one was neutral. Two stakeholders opposed it because they thought the acceleration was insufficient to adequately protect future consumers. In contrast, three stakeholders (including Cadent and SGN) opposed it as they thought the acceleration was too fast and unjustified given the uncertain future of gas. Eight stakeholders - both supportive and opposed to our approach - highlighted that accelerating GD depreciation for new assets only does not fully mitigate the risks to future consumers or perceived stranding risk for investors.
- 7.6 We acknowledge these concerns but consider our approach appropriate, given our ongoing work with government to explore alternative long-term solutions (see later in this chapter). In this context, we consider our approach strikes a reasonable balance. Specifically, it:
- limits RAV growth during RIIO-3 to avoid exacerbating an unfair burden of cost recovery on future consumers;
 - fairly accelerates the recovery of the fixed costs when a significant number of consumers remain connected to the network; and
 - avoids placing disproportionate pressure on current consumer bills.
- 7.7 Our approach is rooted in the uncertainty surrounding 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 it ahead of RIIO-4, or earlier, if necessary.
- 7.8 We received comments on the detailed approach to how we accelerate depreciation to manage its impact on customer bills and companies' finances. These are discussed in Chapter 8 of the Finance Annex.

GT depreciation

7.9 We have decided not to accelerate GT depreciation and retain the current 45-year sum-of-digits profile in RIIO-GT3. Three stakeholders supported this approach, including National Gas. No other stakeholders that responded opposed our approach, but some emphasised the need to consider alternative long-term solutions and reconsider this approach once there are government decisions on the future of gas. We agree and will review our approach to GT depreciation when setting RIIO-4, considering the outcomes of the government-led future of gas programme.

Perceived stranding risk and RAV recovery

7.10 We will continue to set regulatory policy to ensure efficient network companies can finance their functions, and that network assets are depreciated over their useful economic lives. We expect gas network companies should also look for opportunities to reuse or repurpose these assets wherever possible and appropriate, to extend longevity of use. We did not ask a specific consultation question on our approach to stranding risk and RAV recovery but as outlined above, some stakeholders noted that our approach does not fully mitigate the risk of stranded assets. SGN requested we guarantee that the RAV and efficient expenditure will be fully recoverable, and that the RAV recovery cannot be borne by customers alone. We consider that the planned network cost recovery review being undertaken by government is the right place to fully consider potential risks in the round with other mitigation options.

7.11 One stakeholder commented on a perceived inconsistency between our proposal to accelerate GD depreciation with the increase in totex allowances for the sector. We disagree that this is inconsistent. We have carefully considered the need for incremental spending, particularly with regard to its necessity to ensure safety and security of gas supply. This includes the extent to which proposed investments are likely to result in network assets that are likely to be used and useful for consumers in the future. Where this is not met, we have disallowed the associated spending. We also expect network companies to avoid non-essential spending during the price control period, including in relation to proposals submitted through RIIO-3 re-openers.

Interaction with government's work to consider the future of the gas system

7.12 We will continue to work with the UK government to support its future of gas programme of work, which aims to address the strategic challenges facing the gas system. This programme was announced in the government's June Midstream

gas system: update to the market.⁴⁷ Its outcomes are highly relevant to our decision-making on gas regulatory depreciation, as they are expected to provide direction on the speed and scale of any transition, and confirm government policy on cost recovery of network investment.

- 7.13 In particular, the government's upcoming call for evidence on network investment and cost recovery will seek views on options beyond accelerated depreciation to support the fair and equitable recovery of costs given a declining gas consumer base. This includes considering further the issue of perceived asset stranding and investor confidence. Government has acknowledged the importance of providing clarity and aims to determine its policy ahead of RIIO-4.
- 7.14 Accordingly, we reserve the right to adapt our decisions during the RIIO-3 period and beyond, including regulatory depreciation in the gas sector, based on the outcomes of this future of gas programme, if it is appropriate and in line with our statutory duties to do so. We also have a suite of UMs that can adapt baseline allowances in response to changes in government and regulatory policies, as set out in Chapter 6 and the sector annexes.
- 7.15 We did not ask a specific consultation question on our interaction with the government's future of gas programme of work, but stakeholders who commented on this were supportive of our approach. They considered that we need to remain aligned with government and agree that we need to work together at pace on this issue.

⁴⁷ [Midstream gas system: update to the market - GOV.UK](#)

8. Cost of service

Introduction

- 8.1 The scale of investment in RIIO-3 is unprecedented, which is reflected in the totex allowances we have set. As these investments are funded by consumers, it is essential that they are the right ones, delivered at the right time, and at an efficient and fair cost.
- 8.2 In this chapter, we provide an overview of the baseline totex allowances allocated to each network company following our assessment of their submitted costs. Differences between the costs requested by network companies and the allowances we have set arise for several reasons:
- Efficiency assessment - Some differences reflect our assessment of cost efficiency, where we apply a range of tools to ensure consumers receive value for money.
 - Justification of need and options - In our Draft Determinations, we requested additional details in some areas. Network companies generally responded well, enabling us to increase allowances where justification improved. However, where justification remained weak, we have removed or reduced the associated costs.
 - Timing of allowances - In some cases, we agree expenditure is likely needed but consider it more appropriate to set the allowance later in the price control period, once there is greater certainty about the specific investment required.
- 8.3 The approach to determining efficient costs varies by sector and further details on the approach taken are presented in the relevant sector and company annexes. This chapter also focuses on three areas that are common across all sectors.
- 8.4 The first is our appraisal of Engineering Justification Papers (EJPs), which network companies submit for projects or programmes planned for the RIIO-3 period. EJPs set out the need for investment, options considered, the rationale for the preferred option, and details on scope and cost.
- 8.5 The second common aspect is our assessment of the Ongoing Efficiency (OE) that we expect all network companies, even the most efficient ones, to be able to achieve. OE is a means through which we can ensure that, in delivering their investments, network companies are incentivised to achieve the productivity gains that we think are reasonable to expect for companies operating in these sectors.

- 8.6 Finally, recognising stakeholders' feedback on our Draft Determinations, we set out how, within our cost assessment approach across all sectors, we have decided to assess network companies' treatment of National Insurance Contributions.
- 8.7 To set our Final Determinations, we have carefully reviewed network consultation responses and increased funding relative to our Draft Determinations where justified - notably in critical infrastructure resilience areas like cyber security, IT systems, and asset health and safety-critical investments - where companies provided stronger evidence of need and better considered options for interventions that are in the long-term consumer interest. To note, companies have statutory and other licence obligations in relation to some of these areas (for example cyber and asset health) which may be subject to modification, or other changes, during this price control period (via consultation or other standard modification processes).

Headline totex figures

- 8.8 The table below summarises the efficient baseline totex allowances for each network company set for RIIO-3. Chapter 5 of the relevant sector annexes provides a detailed explanation of how we arrived at these costs for each sector.

Table 19: Summary of totex allowances for each network company, £m (presented on a net basis and includes OE challenge and excludes RPEs)

Company	Submitted totex⁴⁸	Ofgem Final Determination	Difference
NGET	5,919.0	5,215.0	-11.9%
SHET	4,025.5	3,460.7	-14.0%
SPT	2,224.2	1,999.4	-10.1%
<u>ET - total</u>	12,168.7	10,675.2	-12.3%
National Gas <u>GT - total</u>	4,052.4	3,197.6	-21.0%
Cadent	8,259.8	7,284.4	-11.8%
NGN	1,853.0	1,656.7	-10.6%
SGN	4,721.6	3,989.0	-15.5%
WWU	2,194.2	1,855.6	-15.4%
<u>GD - total</u>	17,028.6	14,785.6	-13.2%

⁴⁸ Submitted totex may not fully align with network companies' original business plan submissions due to adjustments to input data. Where relevant, these adjustments are explained in the sector and company annexes.

Engineering Justification Paper reviews

- 8.9 In this section, we provide a broad summary of our engineering assessment approach and highlight issues that were common across all sectors. For sector and company-specific information, please refer to the relevant sector and company annexes.
- 8.10 In our Draft Determinations, we challenged network companies to enhance the engineering rationale underpinning specific elements of their proposals. In response, companies across all sectors submitted more robust evidence to us, demonstrating clearer justification for their proposed interventions and offering refined or alternative solutions. Since then, we have extensively engaged - both collectively and individually - with each network company to assess the additional data and revised EJPs. These interactions have been instrumental in shaping our Final Determinations.
- 8.11 As a result of this process, network companies' allowances have been increased compared to our Draft Determinations.

Summary of engineering review findings

- 8.12 During our assessments, we identified issues that were common across some, or all, sectors. Where appropriate, we sought to address these in a consistent way. These areas are summarised below.

Data Quality and Asset Management

- 8.13 The quality of data provided by network companies to support asset health-related submissions varied. In some cases, very good data was provided - either in the original submission, through our supplementary question (SQ) process or in response to our Draft Determinations consultation. In other cases, the data provided was inadequate to prove the investment case or it was not provided at all. Where this occurred, the relevant network companies were advised of this in our Draft Determinations and given the opportunity to submit updated information. Where network companies did not take this opportunity, or where the new evidence remained unclear or insufficient, our Draft Determination position to reduce, or remove volumes has been retained. We have taken care at all times to ensure that the companies' ability to maintain their assets is not put at risk.

Asset Health Selection

- 8.14 One area of focus for our assessments was the relationship between asset condition data and the economic case for intervention. We observed instances (both before and after our Draft Determinations) where network companies

requested funding to replace assets with good asset health scores. In some cases, this was because the overall NARM score denoted that this was a critical asset. While criticality is important, we do not consider it sufficient on its own to justify intervention. Where we found evidence of this, we have assessed the corresponding EJP as being unjustified and adjusted workloads and allowances accordingly. It should be noted that where companies have made a clear case for addressing the asset condition, supported with unambiguous data, the full allowance was recommended.

Engineering Maturity and Optioneering

- 8.15 A number of submissions (both before and after our Draft Determinations) lacked evidence of robust optioneering, or the optioneering outcome did not result in the most economic or efficient outcome. For example, proposing the complete replacement of an asset where a much less costly but equally as effective repair would suffice. In these instances, we assessed the EJP as unjustified.
- 8.16 In ET we consider that there is an opportunity to introduce a level of standardisation which can lead to a reduction in protracted analysis. In order to speed up this process, ensure timely delivery and improve the prospects of arriving at an economic solution, for RIIO-ET3 we are intending to introduce a standardisation process called Pre Approval of Solutions by Engineering (PASE). This should enable the TOs' funding submissions to be fast-tracked through our in-period adjustment mechanisms, if they meet a number of predetermined and agreed design constraints. We intend to develop and consult on this process with industry early next year. This is summarised in Chapter 5 of the ET Annex.

Labour costs - National Insurance Contributions (NICs)

- 8.17 We have decided not to increase any of the network companies' allowances to account for the increase in employers' NIC.
- 8.18 In April 2025 employers' NICs were increased, following changes introduced in the October 2024 Autumn Budget. Three of the four GDNs argued in their responses that we should fully increase their allowances to reflect this change, which was too late for them to take into account when they submitted their business plans. SHET and National Gas included a high-level estimate in their business plans, while NGET provided information following our Draft Determinations.⁴⁹ More broadly, all three TOs argued that this increase should be

⁴⁹ For comparability, we excluded SHET and National Gas costs from our assessment and did not include NGET's additional information in our analysis.

taken into account. There were no comments on this area from National Gas and wider stakeholders.

8.19 Costs like employers' NIC make up a relatively small fraction of networks companies' overall labour costs implicit within business plans. We do not explicitly consider, or assess, them. We expect network companies to manage their overall labour costs efficiently during the price control period - managing all the components that make them up. This is an essential part of any privately run company and, relative to unregulated businesses, network companies are provided additional protection against cost changes outside of their control. In particular, allowances are uplifted every year to account for inflation. We think it is reasonable to expect some, if not all, changes in the NIC to flow through into general levels of inflations. We also note that it is unclear what share, if any, of changes to the NIC are passed through to companies from indirect and contract labour, given the competitive market in which contractors operate. Therefore, we have not made any adjustment to account for the increase in employers' NIC and expect network companies to manage changes in labour costs as part of their overall totex settlement.

Ongoing Efficiency

Introduction

8.20 We apply an OE challenge to reflect the productivity improvements that we consider even the most efficient company can achieve. Setting a stretching but achievable OE target - reflecting the scale of new investments, as well as efficiency gains and innovation in the wider economy - helps ensure value for money by encouraging continued efficiency improvements.

Final Determinations summary

Design	Final Determination	Draft Determination
Level of OE challenge	OE applied at 1.0% per annum for the GD, GT and ET sectors.	Same as FD.
Starting year for applying OE challenge	OE applied annually starting from 2024/25 to 2030/31.	Same as FD.

Final Determinations rationale and Draft Determinations responses

Level of OE challenge

8.21 We have decided to set the OE challenge at 1% per annum (pa) for RIIO-3 for the GD, GT and ET sectors. OE has been applied as a post-modelling adjustment to our view of modelled efficient costs. We have set OE from the first year of

forecast costs (ie 2024/25) and compounded across the remainder of the forecast to the end of RIIO-3 (2030/31).

- 8.22 We think it is important, in the absence of competition, that monopolistic network companies are strongly challenged to continue driving cost efficiency through their businesses over time. OE represents an important regulatory tool that allows regulators to challenge regulated companies to perform above the level of the average company in the economy, and ensure consumers pay fair prices for the services they receive. We think setting an OE target at 1% pa is consistent with setting a high level of ambition for network companies to operate as efficient businesses and to continue to drive effective cost savings over time by adopting innovative new approaches to running their businesses.
- 8.23 In our Draft Determinations, we set out our approach and rationale for proposing an OE target of 1% for RIIO-3. This involved a quantitative assessment of backward-looking productivity data from EU KLEMS⁵⁰ (known as growth accounting analysis), undertaken by our consultants Grant Thornton (GTh), to derive a broad feasible range of 0.1%-1.3%. We then narrowed this to a plausible range of 0.7%-1.3%. The lower bound of 0.7% represents the highest estimate submitted by one of the network companies in its business plan. We consider this to be the minimum level of annual OE improvement all network companies should be able to achieve, given the implicit incentives on them to 'aim down' in proposing OE targets. We chose the mid-point of this narrow plausible range (1%), based on our qualitative assessment of various factors, including:
- the impact of different productivity metrics;
 - the potential for embodied and disembodied technical change;
 - network companies' strong ambitions to deliver significant technological change in RIIO-3;
 - the impact of historical innovation funding;
 - the protection afforded to regulated network companies against wider productivity slowdowns due to the predictability of the price control frameworks;
 - recent UK regulatory precedent;
 - network companies' submitted OE assumptions; and
 - independent forecasts of economy-wide productivity trends.

⁵⁰ EU KLEMS stands for EU level analysis of capital (K), labour (L), energy (E), materials (M) and service (S) inputs.

- 8.24 All of the network companies⁵¹ disagreed with our proposed OE target of 1% and argued it should be lower to varying degrees. Two industry bodies, two consumer groups and an independent consultancy supported our proposed approach to OE, noting the importance of having a sufficiently stretching OE target that accounts for likely technological innovations in coming years. The responses from the network companies and the supporting reports by their consultant advisors contained detailed discussions on various aspects of our assessment approach, assumptions and outcome. We have grouped these into common themes and discussed in further detail below.
- 8.25 The four GDNs and National Gas (collectively the 'gas companies') jointly commissioned an updated response from Economic Insight (EI) in response to our Draft Determinations. SPEN and SHET provided updated reports from Oxera, while NGET was supported by Frontier Economics ('Frontier').

Technical arguments relating to the growth accounting analysis

- 8.26 All of the network companies provided responses relating to specific aspects and analytical choices that informed the growth accounting exercise undertaken by GTh in our Draft Determinations. These broadly fell into the subcategories of time period of analysis, covering the definition of business cycles used by GTh, and the choice and weighting of comparator sectors. Since our Draft Determinations, we have commissioned GTh to produce an updated report,⁵² which addresses the technical arguments put forward by the network companies and their consultants. We have used this report to inform our decision on OE in our Final Determinations.

Time period of analysis

- 8.27 In line with GTh's updated report, we have decided to base the growth accounting analysis on the time periods of 1970-1996, 1997-2007 and 2008-2019, in a slight change to the proposed approach in our Draft Determinations which excluded data from 2008 and 2009. The gas companies and NGET suggested that GTh was not capturing complete business cycles with its choice of time periods⁵³ within its analysis. They suggested this was leading to an overestimate of the top-end of the feasible range, based on the 1997-2007 period.

⁵¹ SHET, SPT, NGET, National Gas, Cadent, NGN, SGN, WWU.

⁵² Grant Thornton - Second Independent Report on OE. This is published on our website, as a subsidiary document to our Final Determinations.

⁵³ 1970-1996, 1997-2007 and 2010-2019.

- 8.28 We consider the choice of the 1997-2007 period is robust and appropriate as a complete business cycle, based on the definitions applied by GTh. In its updated report, GTh states that these time periods (1970-1996, 1997-2007 and 2008-2019) constitute full business cycles, in line with its analysis of the OBR output gap data according to the definition used by CEPA at RIIO-2. This is a consistent approach to that used in RIIO-2 to define business cycles, maintaining regulatory precedent of method, while utilising the most recently available OBR analysis on business cycles.⁵⁴ Under this approach, the choice of the period 1997-2007 remains a correct choice of business cycle.
- 8.29 In its analysis for Draft Determinations, GTh excluded data from the years 2008 and 2009 (because of the Global Financial Crisis (GFC)), and 2020 and 2021 (because of the COVID-19 pandemic) as outliers from its growth accounting analysis, citing the unprecedented nature of these events and low likelihood of recurrence. EI, Oxera and NGET all highlighted that this approach did not follow best practice, suggesting that outliers should be identified using statistical tests. EI suggested 2008, 2009 and 2020 should be included in the analysis, while Oxera agreed with the exclusion of 2020, but called for the inclusion of 2008 and 2009. The network companies proposed adding 2008 and 2009 to the middle period (1997-2007) of GTh's analysis.
- 8.30 GTh has considered these positions put forward by the network companies and their consultants and maintains that excluding the COVID-19 years remains appropriate. There is evidence to support the view that the COVID-19 pandemic resulted in abnormal economic conditions in 2020, a view supported by Oxera, and there are data availability concerns with respect to 2021. However, GTh has acknowledged that adding 2008 and 2009 to its analysis may be appropriate within the most recent period (2010-2019), although it finds that including these years does not change its recommended feasible OE range of 0.1%-1.3%. We accept the network companies' arguments that 2008 and 2009 are relevant years to the analysis and have decided to change the 2010-2019 period to 2008-2019, but note this change does not impact the results of GTh's analysis on the feasible OE range.
- 8.31 We note that defining business cycles, and the metrics on which they are based, entails a degree of judgement. Our decision is made on the basis of alignment with external sources, and we agree with GTh that it is important its analysis applies the definition of business cycles consistently with external sources. On

⁵⁴ [WorkingPaperNo1-Estimating-the-UKs-historical-output-gap.pdf](#)

this basis, including 2008-2009 within the most recent business cycle does not change our view of the feasible range for OE in our Final Determinations. We consider the years around the COVID-19 pandemic to be outliers, in line with Oxera's assessment, and therefore they do not warrant inclusion in the most recent business cycle.

Comparator sectors

- 8.32 We have decided to use a simple average to weight comparator sectors within the growth accounting analysis that informs our Final Determinations. We remain concerned about using differentiated weights for different sectors because of the risk of introducing spurious accuracy. GTh's updated report considers this and notes significant practical challenges with using activity-specific weights, including the subjective nature of activity-based mapping exercises and potential misalignment of definitions between companies and sectors. We agree with GTh that using a simple average is more appropriate and aligned with regulatory precedent.
- 8.33 SHET and SPT disagreed with the inclusion of the Information and Communication (I&C) sector, because it includes subsectors irrelevant to regulated companies and results in an upward bias. We agree with GTh that, although subsectors within I&C exhibit different degrees of comparability with regulated energy companies, it is not possible to establish the level of comparability of each subsector without the risk of introducing biases.⁵⁵ Additionally, as GTh note, excluding either or both the 'Publishing, audio-visual and broadcasting activities' and 'Telecommunications' sub-sectors from the overall I&C sector, as suggested by Oxera, results in an increase in the upper bound of its OE range. This suggests their inclusion is not unduly influencing the outcome of the overall assessment. GTh also argues that it is inaccurate to characterise the wired communications activities (part of the 'Telecommunications' sub-sector) as a natural monopoly, given the presence of a number of areas where there are multiple networks in competition with each other, making it a better suited comparator than Oxera suggested.
- 8.34 All GDNs and National Gas did not question the inclusion of the I&C sector but argued that the parallels between artificial intelligence (AI) and the impact on gas network companies are not clear. We note that Frontier (on behalf of NGET) supported the inclusion of the I&C aggregate sector at the business plan

⁵⁵ The I&C sector comprises of three sub-sectors: 'Publishing, audio-visual and broadcasting activities', 'Telecommunications' and 'IT and other information services'.

submission stage, saying that there is an overlap in the activities carried out by a TO and companies in this sector and, in the case of procured services, productivity in the I&C sector would feed into ET sector productivity. Noting the range of views from companies and their consultants on the suitability of the I&C sector or sub-sectors as a comparator (including support for inclusion from Frontier), and the risk of introducing biases by excluding selected sub-sectors, we have decided not to exclude the I&C sector, or any of its subsectors, in our Final Determinations. We consider that the I&C sector remains relevant, particularly in light of the scale of IT&T investment allowed in RIIO-3.

- 8.35 SPT and NGED proposed excluding some of the six Manufacturing subsectors that compose the overall Manufacturing sector that was included in our Draft Determinations, citing limited comparability with regulated energy companies or regulatory precedent. We disagree with the statement that including Manufacturing subsectors lacks regulatory precedent, as Total Manufacturing was used as a comparator sector to inform both PR19 and PR24 OE targets in water. Moreover, we note that the inclusion of the six subsectors was advocated for by the gas companies and NGET. As with the I&C sector, we do not consider it appropriate to remove individual subsectors because it is not possible to establish the level of comparability of each subsector without the risk of introducing biases or spurious accuracy.
- 8.36 SPT and SHET also questioned the relative weight given to the Construction sector, suggesting it should be higher as they consider it to be the most relevant comparator for network companies. They also proposed the use of weighted averages to try and replicate the underlying structure of their activities within the EU KLEMS analysis. They proposed that the weights given to each sector should be determined from an activity mapping exercise, whereby each broad activity performed by network companies is mapped to the sectors considered most relevant to those activities. Their mapping exercises suggested that the Construction sector should account for weights of 30% and 50% respectively, based on their own activities. However, the use of sector weights requires subjective, qualitative judgements about the appropriate weight to assign. As GTh notes, there are strong reasons not to give differential weights to comparator sectors, including robustness, practicality and regulatory precedent.
- 8.37 The use of weights opens up the likelihood of spurious accuracy, particularly when trying to map between the relatively general activities included in the sectors and sub-sectors and the specific activities undertaken by energy network companies. In practice, businesses included within each sector and sub-sector are

likely to share different degrees of overlap with the activities of energy network companies. Each network company activity will likely share common features with all comparator sectors, not just those considered to be best fit. Weighting sectors and sub-sectors leads to selectively picking aspects of sectors, while ignoring others. It also risks creating overly complex processes with no certainty of a more accurate answer. Therefore, we disagree with SPT and SHET's proposal to give a higher weighting to the Construction sector, or to the use of weighted averages more generally.

Sector specific considerations

- 8.38 We have decided to set the OE challenge at the same level for all sectors. Our view is that all network companies start the price control with the same opportunity to exploit as yet unknown productivity gains. This supports both setting a single OE target for all sectors and our approach of using the highest of the network companies' submitted OE estimates as the minimum level for our focused range. Cadent emphasised EI's suggestion that gas network companies have less opportunity to outperform than electricity network companies, and this should be reflected in differential OE challenges between sectors. Cadent suggested that the declining demand outlook for the gas network makes realising improved economies of scale more challenging, with investments to improve efficiency requiring a faster payback than previously.
- 8.39 We think there is only a weak link between the level of expenditure allowed for the GDNs and overall trend of gas demand. For example, the largest share of GD expenditure is for Tier 1 mains and services repex workloads, which are determined by HSE legislative requirements. Additionally, declining gas demand could potentially lead to fewer leaks on the network, contributing to lower opex costs. The capacity of the network is driven by the need for GDNs to meet 1-in-20 peak requirements, rather than overall gas demand. Across the industry peak demand forecasts are broadly stable in RIIO-GD3. We do not use network capacity or throughput as cost drivers within our top-down totex model, which is generally supported by the GDNs, indicating that demand is not the main driver of costs. Therefore, we disagree that a declining demand outlook for gas results in fewer opportunities to drive efficiencies in the future. We also note that, as highlighted in GTh's first report, OE is not intended to capture the benefits derived from economies of scale, where they exist. Accordingly, we do not support sector-specific OE challenges.
- 8.40 SHET suggested that our proposed OE target did not sufficiently acknowledge the wider context in which the TOs will operate within RIIO-3, including not

accounting for the direct impact of ASTI and investment needed to support CP2030. We acknowledge that RIIO-3 is set to be transformational for the ET network in GB, but consider that this provides the TOs with new opportunities to identify and drive operational efficiencies. We think ambitious delivery targets (such as those in CP2030) and stretching but achievable cost efficiency challenges are mutually compatible with incentivising TOs to identify new, innovative ways to deliver projects to time and to reduce costs. Therefore, we do not consider the fact that the industry is facing a period of expansion and growth in RIIO-3 acts as a constraint on its ability to deliver productivity gains consistent with our 1% OE challenge.

Decision making process

8.41 Many responses from the network companies focused on our qualitative approach to weighing up the different factors that informed our decision to set a 1% OE target from our narrow range. They made the following points:

- Ofgem has downplayed the recent productivity decline in the wider UK economy, and did not acknowledge the impact of such decline on energy network companies.
- There was an overreliance on NGET's 0.7% target to set the lower bound of our plausible range in our Draft Determinations, and respondents disagreed with Ofgem's claim that network companies are incentivised to 'aim down' in proposing OE targets.
- Ofgem is wrong to give weight to Value Added (VA) Total Factor Productivity (TFP) measures of productivity in its decision. Alternatively, some respondents argued that it is "sensible (and consistent with regulatory practice) to incorporate both measures", but that more detailed explanation was needed on which factors are impacted by VA.
- Official independent forecasts from the OBR and Bank of England (BoE) do not support an OE target of 1%.
- Ofgem should not give weight to embodied and disembodied technical change, as the size of the effect cannot be reliably estimated.
- Ofgem is incorrect in arguing that historical innovation funding will benefit network companies through future efficiency gains.
- Ofgem is incorrect in arguing that network company spending on IT&T and data & digitalisation (D&D) spending will drive efficiency improvements through their businesses.

- Ofgem is incorrect to assert that GDNs can realise productivity gains from funding for investments in innovative new technologies such as ALD and DPLA.
- 8.42 Further concerns were raised about our approach to selecting a 1% OE target from our narrow range:
- Ofgem has relied on precedent of outcome, rather than precedent of methodology. Ofgem has overly relied on historical OE challenges set at previous price controls, rather than basing its decision on updated analysis.
 - As Ofgem re-baselined some outputs, RIIO-3 will set more stretching service delivery requirements than for RIIO-2, which is at odds with choosing an OE target from the higher end of the range.
- 8.43 Our decision to set OE at 1% for RIIO-3 reflects our regulatory judgement on an appropriate level of OE challenge for regulated energy network companies. OE is an important part of the regulatory toolkit when setting ex ante cost allowances, and we think it is important that companies are challenged to deliver productivity gains on an ongoing basis, particularly with record levels of investment expected during RIIO-3. GTh's backward-looking quantitative analysis demonstrates that a 1% OE challenge is within reasonable bounds. Additionally, on a forward-looking basis, we think there remains strong potential for energy network companies to continue delivering ongoing productivity improvements at levels above the average of the wider economy.
- 8.44 It is also important to understand the role of the most recent analysis on wider productivity on our decision making and determine to what extent this analysis is pertinent. In this respect, we note the CMA's recent Provisional Determination (PD) on Ofwat's PR24 price control appeals in the water sector⁵⁶. The CMA has proposed a novel approach to setting OE that departs from recent regulatory precedent, based on initially determining whether productivity growth in the water sector is comparable to the wider economy. To do this, it uses Ofwat's base cost model suite to estimate the average level of recent (2013-2024) productivity growth across the water sector firms. It concludes that productivity growth in the water sector has been close to zero over this period, which is close to the level observed across the wider economy. It therefore concludes that water firms are comparable to the average firm in the UK economy in terms of productivity

⁵⁶ Available: Water PR24 price redeterminations - GOV.UK

growth. This conclusion is used to justify setting OE targets on the basis of productivity forecasts for the wider economy produced by the BoE and the OBR.

8.45 Together with GTh, we have carefully considered the CMA's PD approach and have identified a number of areas of concern about using the approach as a relevant data point for our own OE target. These are:

- Using only data from the monopoly water sector risks failing to capture important sources of efficiency which are prevalent in the wider economy, and which the OE challenge seeks to replicate. We consider this similarly applies to the energy sector.
- Using data from the companies within the water sector to effectively set forward-looking productivity for the water sector also risks creating perverse incentives to not drive productivity performance to the greatest extent possible. This position is supported by EI in its report for the Future Energy Networks (FEN) trade association,⁵⁷ which states "we are not suggesting Ofgem should use actual gas network productivity performance data to set the forward-looking OE target. This should be cautioned against, to avoid creating any perverse incentives or circularity". We agree that this approach is not advisable for the energy sector.
- Measuring historical efficiency of regulated companies is very challenging in practice, due the difficulty of specifically differentiating factors that drive costs (eg delivery of outputs, condition of assets) from change in efficiency.
- The CMA's approach only considers data from the 2013-2024 period, which risks underestimating the potential for future productivity growth, given a number of adverse economic events which have occurred in this post-GFC period.
- The CMA's analysis is based only on the base cost models for the water sector, meaning it doesn't capture any potential productivity associated with enhancements or retail. This risks missing potential productivity gains across parts of the water companies' cost base, and we think this is inconsistent with our approach to applying OE at the totex level for energy networks.
- Based on the information available within the PD documents, it appears that the approach used by the CMA is, by construction, likely to return estimates of productivity that are close to zero. The Ordinary Least Squares (OLS) method seeks to minimise the extent of variation that is not explained by the model. A

⁵⁷ As submitted alongside gas company business plans. Economic Insight: Further Evidence on OE for Gas Networks at RIIO-3: Supplementary Report, p.5

model with good fit will have small variations, making it more likely values will be close to zero. This makes interpreting the results in the context of setting an appropriate OE challenge difficult.

- In the context of energy network companies, there are data limitations to repeating such an exercise for the TOs and NGT. We do not use regression analysis to assess totex for these sectors, which reflects the challenges of obtaining consistent, comparable datasets between these companies. While we do have comparative data at the totex level in the GD sector, we note there are fewer companies compared to water, reducing the number of data points. This is particularly important when considering the comparability of the GD sector relative to the average UK firm, rather than relative to other networks, as we do in the totex benchmarking. We think it is important to have a repeatable methodology that can be applied across all sectors within energy.

8.46 The CMA's proposed approach is only provisional at this stage and may be subject to revision in its Final Determinations. Any changes could be applicable to the energy sector, but we would not be able to reflect these in our Final Determinations. Therefore, we have decided not to adopt its PR24 PD approach for RIIO-3 and have maintained the approach we consulted on in our Draft Determinations, which selects an appropriate point estimate from our quantitatively derived focused range, based on an in-the-round assessment of various sources of evidence.

8.47 Although we have given qualitative consideration to independent forecasts of wider UK productivity growth from the OBR and BoE in coming to our OE target in our Final Determinations, our approach to setting OE does not tie the outcome directly to such forecasts. Firstly, we expect regulated network companies to be able to outperform the average UK firm, which such forecasts represent. Secondly, these forecasts are uncertain, with the OBR stating "productivity growth is inherently difficult to forecast, and the outlook is subject to significant uncertainty".⁵⁸ This makes the forecasts liable to change in the future, as the economy develops and indicators are updated.

8.48 Explicitly linking our OE challenge to independent forecasts would therefore imply that the level of productivity challenge companies face should be updated throughout RIIO-3, as revised forecasts are published. This would not be consistent with the principles of the RIIO framework, which broadly seeks to

⁵⁸ OBR - Economic and fiscal outlook (November 2025), p.28

provide companies with allowances set ex ante, and incentivises them to outperform against these. We think this would lead to an unstable and uncertain regulatory framework, which would be undesirable and operationally challenging for companies. While we include mechanisms to adjust totex allowances in-period, such as RPEs, this is not comparable, as the drivers of productivity are less clearly identified and are not directly measurable in the same way as the indices which underpin the RPE adjustments. Therefore, OE must be set as an ex ante target at the start of the price control to support regulatory stability.

- 8.49 We note the OBR's downgrade of the UK productivity forecasts published on 26 November 2026. This has resulted in a 0.3% decrease to the medium-term outlook for UK productivity since its previous forecast from 1.3% to 1%. Trend productivity growth is forecast to increase in 2024 and 2025, and then reach 1% in 2030. As noted above, the OBR highlights a high degree of uncertainty and supports its central estimate with upside and downside scenarios, indicating potential medium-term productivity growth up to 1.5% or down to 0.5% respectively. As explained above, this recent revision does not mechanistically result in an update of our view of the appropriate level of OE challenge for regulated network companies in RIIO-3. However, we note that this forecast also sits within at the top-end of the narrow range we have used to set the OE challenge in RIIO-3.
- 8.50 It is important to consider the specific context in which regulated energy network companies operate when setting an appropriate forward-looking OE target for RIIO-3. We maintain the view from our Draft Determinations that it is reasonable to set a stretching but achievable efficiency challenge for regulated energy networks. These companies have greater potential to outperform the wider economy because they operate within the RIIO price control frameworks, which we consider insulates them from the wider economic productivity slowdown due to higher certainty over revenues and returns than for companies operating in competitive sectors. This allows for greater management focus on cost savings and cost efficiency.
- 8.51 Cadent, drawing on EI's initial report on OE,⁵⁹ reiterated its position that regulated network companies are fully impacted by wider productivity slowdowns driven by a lack of public and private investment, infrastructure quality, quality of human capital stock and management quality. We do not accept this argument.

⁵⁹ Economic Insight - Further Evidence on OE for Gas Networks at RIIO-3: Supplementary Report (11 October 2024)

Our Final Determinations have enabled at least £28.7bn of investment across RIIO-3 and include the potential for around an additional £60bn through UMs. This represents record levels of investment into UK energy network infrastructure. Across RIIO-1 and RIIO-2, network companies have spent around £770m on operational and non-operational training, to enhance the quality of their human capital and help improve the efficiency of their workforces. In the ET sector, we have allowed the TOs' operational training asks in full in our Final Determinations. We expect regulated network companies to drive high managerial standards, consistent with network companies being able to outperform the 'average' UK firm.

- 8.52 We maintain our view that giving qualitative consideration to VA measures of productivity and the potential for both embodied and disembodied technical change is appropriate, given regulatory precedent in RIIO-2 and RIIO-ED2. We consider that embodied technical change (ie related to quality improvements in inputs) is important when setting the efficiency challenge, as the potential for productivity growth may be underestimated if it is excluded.
- 8.53 We have allowed over £2.2bn of costs for IT&T investments across the ET, GT and GD sectors at Final Determinations, with a further almost £900m allowed for D&D. Combined, this accounts for 11% of ex ante totex allowances in RIIO-3. Companies have justified these investments as part of their IT&T and D&D strategies, which include ambitions to leverage AI and machine learning (ML) to drive efficiencies, deliver world-leading technology to remain at the frontier of efficiency, foster cultures of continuous improvement, and adopt coordinated approaches to drive efficiency across business units. Cadent and NGET both state that they have already accounted for the productivity gains associated with their proposed IT&T investments within their RIIO-3 forecasts. However, given they have identified these efficiencies ahead of time, we consider these to be consistent with catch-up efficiency, rather than unknown OE gains, avoiding any double counting of productivity improvements. We view the high level of stated ambition, combined with the level of funding provided, as supportive of setting a stretching but achievable OE target in RIIO-GD3.
- 8.54 We think it is important that the companies continue to innovate and adopt new technologies, and that customers share the benefit of these, including ongoing improvements in productivity. Cadent and SGN disagreed with our view that the adoption of ALD and DPLA technologies in RIIO-GD3 would lead to increases in productivity. We note that the summary for Cadent's DPLA Strategic Innovation Fund (SIF) project includes a reduction in the time taken to fix leaks as one of the

project's benefits.⁶⁰ The suppliers of the ALD technology the GDNs expect to trial and use in RIIO-GD3 state cost reductions and operational efficiency improvements are important advantages of their products. Given the use of DPLA and ALD technologies are still in their infancy in GB networks, and that significant funding for testing and adoption has been made available in RIIO-GD3, we think it is reasonable to expect companies to identify opportunities for these technologies to drive improvements in productivity as they are rolled out across the GDNs.

- 8.55 In conclusion, we note that setting an OE challenge is an exercise of regulatory judgement and involves taking account of multiple factors as well as assessing the relevance of different evidence sources in the context of regulated network companies. As we've set out, we consider that regulated companies are afforded protection through the regulatory framework, and we consider this supports setting a stretching but achievable OE target for RIIO-3. We have based our decision on a balanced approach, taking qualitative account of various factors to choose an appropriate target from a quantitatively derived range remains appropriate for setting OE in RIIO-3. Our overall methodology is consistent with regulatory precedent, with our decision itself reflective of an in-the-round assessment of the opportunities that network companies have to drive productivity going forward. Therefore, we remain of the view that a 1% pa OE challenge is appropriate for RIIO-3.

Starting year for applying OE challenge

- 8.56 We have decided to apply OE from year four (2024/25) of RIIO-2, which is the first year of forecast data within the BPDTs submitted by the companies. The OE challenge then compounds from this point through to the final year of the RIIO-3 forecast.
- 8.57 Cadent, National Gas and WWU proposed that OE should be applied from year five (2025/26) of RIIO-2, rather than year four, on the basis that companies' RIIO-3 business plans were submitted part way through year four. Cadent suggest this is consistent with our approach in RIIO-GD2, when OE was applied from the final year of the RIIO-GD1 period, which was "the only remaining forecast year of expenditure at the time of the Final Determination (December 2020)".
- 8.58 For RIIO-GD2 we incorporated RRP data from the penultimate year of RIIO-GD1 into the cost models between Draft Determinations and Final Determinations. In

⁶⁰ [Digital Platform for Leakage Analytics – Beta Phase | ENA Innovation Portal](#)

line with this update, we applied the OE challenge from the first year of forecast data; the final year of RIIO-GD1. For RIIO-3, none of the sectors have used updated RIIO-2 year four RRP data within their respective cost models to determine allowances in our Final Determinations. Therefore, we have applied OE from year four of RIIO-2, the first year of forecast data. This is consistent with our approach in RIIO-2 and RIIO-ED2.

- 8.59 All network companies have confirmed that they have adhered to our BPG that states that OE should be excluded from forecast costs. Therefore, we do not agree that compounding the OE challenge prior to the start of RIIO-3 overstates the potential for productivity improvements.
- 8.60 WWU suggested that OE should be applied to around 80% of its totex proposal, representing business as usual (BAU) activities at a rate of 0.6%, rather than applied to 100% of it. We disagree that OE should only be applied to BAU activities. The OE challenge is a totex challenge, covering all areas of network companies' totex allowances, reflecting that by its nature it is unknown at the start of the price control where OE-related productivity gains will be delivered. Excluding certain cost areas from the OE challenge could risk consumers overpaying for services if those excluded areas turn out to be where the highest level of productivity gains can be achieved. Applying OE across the full totex allowance ensures that companies are incentivised to seek efficiencies wherever they arise.
- 8.61 In its Draft Determinations response, NGN suggested that the link between expectations for service delivery and the feasibility of our OE assumptions had not been addressed. We disagree. Our Final Determinations clearly set out the level of service we expect from companies (see the policy chapters in this document and the relevant sector annexes) and our view of the associated efficient allowances (see the Cost of Service chapters in the relevant sector annexes).

9. A stable and predictable financial framework

Introduction

- 9.1 Our Final Determinations set a financial framework that delivers the scale of investment needed for the gas and electricity sectors while protecting consumers from excessive costs.
- 9.2 Our financial framework broadly addresses three key themes:
- Setting efficient cost of capital allowances to attract the right levels of investment.
 - Having regard to the need for network companies to be able to finance their activities, which helps to protect consumers from risks associated with actual financing decisions that network companies and their shareholders have made.
 - Setting a balanced level of risk and reward across the RIIO framework - ensuring the sector is investable.
- 9.3 Since our Draft Determinations, we have carefully considered market data changes and stakeholder feedback. Our changes are targeted to strengthen stability and predictability in an environment of higher interest rates and global economic uncertainty. This approach benefits both investors and consumers, and provides confidence in the energy sector.
- 9.4 We are implementing several key decisions to achieve this:
- Our cost of capital allowances have evolved from RIIO-2 to reflect the current environment and have been revised since Draft Determinations based on market movements.
 - Our Return Adjustment Mechanisms (RAMs) will be maintained from RIIO-2 to protect investors and consumers from excessive gains and losses.
 - We are implementing our semi-nominal debt allowance to protect consumers from inflation shocks.
 - We are maintaining our 85% "bucket 2" capitalisation rate to support the financeability of TOs in the interest of consumers.
 - We are implementing the financial resilience measures set out in our Draft Determinations to promote confidence in the sector and reduce the risks of distress or failure.

Cost of capital

- 9.5 The allowed return on equity is a critical estimate to ensure the energy sector can attract and retain sufficient equity capital. Our proposed allowances of 6.12% for

60% notional gearing and 5.70% for 55% gearing are underpinned by rigorous market-based cross-checks. This approach provides confidence that the allowances are both fair and aligned with the need to maintain efficient financing and deliver sustainable outcomes for consumers.

- 9.6 The cost of debt allowance is indexed over the price control period to ensure it appropriately reflects market conditions. We use RIIO-2 methodologies, with refinements, to reflect market conditions and reduce unintended outperformance:
- Firstly, we are changing our benchmark index so that the allowed return on debt is less influenced by volatility in the water sector.
 - Secondly, a nominal allowance for fixed-rate debt will reduce the exposure of consumers to inflation.
 - Finally, using observable data, we are taking a tailored approach to setting debt allowances across sectors with allowances ranging between 4.56% and 5.78%.
- 9.7 Bringing together our cost of equity and debt allowances, means a Weighted Average Cost of Capital (WACC) of 5.18% in gas and a range of 5.53% - 5.74% (sector unweighted average 5.64%) in ET (expressed in semi-nominal terms).

Assessing network company financeability

- 9.8 We have a duty to have regard to the need for companies to finance activities which are the subject of obligations imposed by or under the relevant legislation. Most regulated utilities raise debt finance by issuing bonds in the capital markets. In addition, network companies have licence requirements to take all appropriate steps within their power to maintain an investment grade credit rating.
- 9.9 These ratings are issued by firms called rating agencies. An investment grade credit rating signals a strong likelihood that the network company will be able to meet its liabilities. This help keeps borrowing costs low for network companies - and ultimately network charges low for consumers.
- 9.10 We assess financeability on an efficient notional company basis, using market datapoints to guide our assumptions.
- 9.11 We are implementing our proposals to bring forward the network companies' cashflows in ET to support the financing of their operations. Specifically, for expenditure relating to re-openers ("bucket 2") we have set the capitalisation rate at 85%, reduced from the natural rate (c.100%). This decision helps to keep the costs of raising and investing capital into the ET sector lower.

9.12 We have also considered responses to our depreciation proposals across the different sectors. We are maintaining our Draft Determinations proposals on depreciation in GD (set out further in Chapter 7 of this document and Chapter 8 of the Finance Annex), with some acceleration compared to RIIO-2. In both the GT and ET sectors we have decided to maintain our RIIO-2 approach to depreciate all assets over a 45-year life.

Ensuring the balance of risk and reward incentivises investment and delivery

9.13 The scale of investment during RIIO-3 far exceeds previous price controls. These programmes, combined with the long-term benefits of greater electrification, make timely delivery by network companies essential. This ensures consumers see the value of the investments they have funded through their energy bills.

9.14 Our aim is to incentivise investment and delivery at a fair cost to consumers. We are enabling this through a competitive, but fair, baseline equity allowance combined with tailored incentive packages for the different sectors.

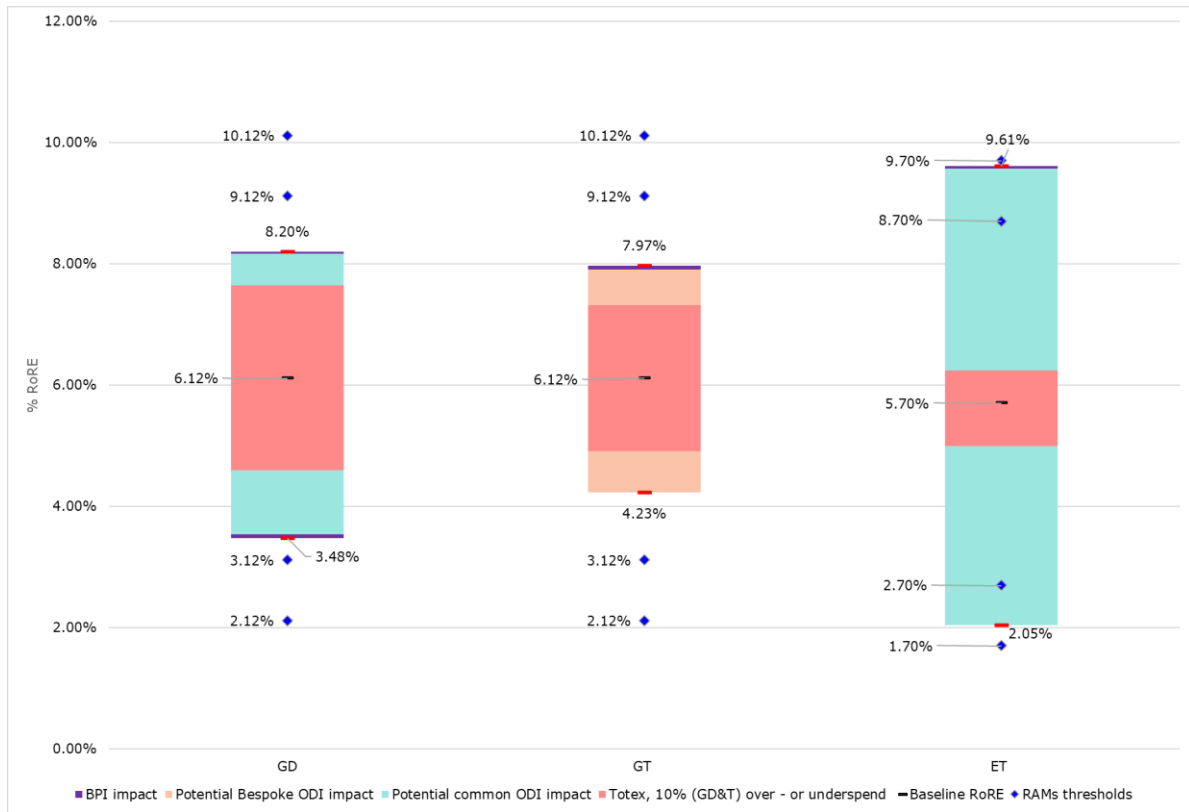
9.15 For the gas sectors, our approach is to broadly mirror the RIIO-2 incentive packages, which will give network companies and investors predictability around their overall returns. Our aim is to ensure the gas networks remain safe, reliable, and resilient while supporting the transition to a low-carbon energy system.

9.16 The scale of the ET programme means that incentives will play a powerful role in rewarding timely delivery and disincentivising delays. At the same time, we will provide predictable, solid returns for TOs that perform in line with expectations, ensuring the sector remains investable. TOs that go beyond expectations can earn higher returns, while those that fail to deliver will be held accountable.

This can be seen in our RoRE ranges in

- 9.17 Figure 2. This metric shows the return on equity that an investor can expect plus a company's overall ability to out or underperform on their costs and ODIs. For each price control period, we carefully calibrate these allowances to strike an appropriate balance between scope for outperformance for high-performing companies and the scope for underperformance for poorly performing companies.
- 9.18 We consider our RoRE ranges offer an appropriate level of reward with stretch targets for the risks borne by investors and network companies.

Figure 2: RIIO-3 RoRE ranges



10. Innovation

Introduction

- 10.1 Innovation is an essential part of how we expect energy networks to operate. To deliver a low-carbon energy system that is reliable, safe and efficient at a pace in line with our net zero targets, companies have to find new ways of developing and operating their networks.
- 10.2 Within RIIO-3, we encourage innovation in several ways, including through the TIM which incentivises innovation within the core price control framework. In our Draft Determinations we proposed refinements to our two dedicated regulatory funding mechanisms that support innovation - the Network Innovation Allowance (NIA) and the Strategic Innovation Fund (SIF). Below we set out why we have retained most of our Draft Determination proposals.

Network Innovation Allowance (NIA)

Purpose: Innovation funding to encourage early-stage Research & Development (R&D), leading to projects that can be rolled out as business as usual across networks.

Benefits: Networks deliver innovation projects that they would not otherwise undertake, with improvements leading to financial, social and environmental benefits for consumers.

Final Determinations summary

Design	Final Determination	Draft Determination
UM type	UIOLI Allowance.	Decided at SSMD.
Scope	Retain RIIO-2 scope, other than remove future of gas (in defined areas) from funding scope.	Change- DD, not taking forward Innovator Advisory Services.
Funding level	£258.5m across all sectors.	Change- NIA amounts have been amended.
Funding design (oversight and reporting)	- Increase oversight of the NIA. - Clarify all reporting requirements and address gaps.	Same as FD.
Applied to	ET, GD and GT.	Same as FD.
Associated document	NIA Governance Document.	Same as FD.

Final Determinations rationale and Draft Determinations responses

Scope

Remove future of gas work from the scope of NIA funding

- 10.3 We have decided to retain our position on future of gas work in RIIO-3, removing it from the scope of NIA funding. This means that work relating to the HTBM, Carbon Capture, Usage, and Storage (CCUS), hydrogen heating or hydrogen blending should not be done through NIA. For the avoidance of doubt, innovation work around biomethane and decommissioning will still remain within scope of the NIA.
- 10.4 Eight respondents disagreed with our position, arguing that this would undermine the UK's net zero goals, stall critical evidence-building and noting that other mechanisms (such as the HTBM) are not suited for early-stage innovation work. They also stated that this will stop networks from supporting future NESO projects on hydrogen, as well as impact submissions under UMs that rely on ecosystem of smaller innovation activities. Finally, they argued that the operability of the network must be maintained as all policy decisions in this area aren't final. National Gas noted that the NTS has been identified as a facilitator for CCUS as well as a level of blending, and that repurposing gives value to consumers by reducing risks of increased tariffs, decommissioning costs and risk of stranded assets.
- 10.5 Five non-network respondents supported our position, recognising that due to high levels of uncertainty this work shouldn't be funded through consumer bills.
- 10.6 We have considered the points made and our position remains unchanged. Given uncertainty around the future of gas, and the substantive innovation work already done in this area in RIIO-2, gas consumers should not bear further costs in this area at this time. In certain cases, where proposals are within eligibility and scope, mechanisms such as the SDP Re-opener and DPD UIOLI can support further work if needed. Additionally, we remain open to reviewing the position on hydrogen heating and blending if future government decisions require further network innovation in these areas.

Providing enhanced advisory services to innovators

- 10.7 We have decided not to proceed with funding advisory services to innovators at this time. This is a change from our proposed position in Draft Determinations.
- 10.8 Of the 21 consultation responses all but one stakeholder supported what our proposal was trying to achieve in terms of providing enhanced coordination and provision of timely, consistent, and relevant support for innovators.

- 10.9 Most respondents emphasised the importance of a fair and transparent selection process for the delivery party, yet many also cited concerns about duplication and / or further fragmentation of existing advisory services - which were also emphasised as important during stakeholder working groups and bilateral discussions. Some GDNs also questioned the need for the services if future of gas projects are ruled out for NIA funding.
- 10.10 We also reviewed the available RRP data on early-stage innovator interactions with network companies, and reports by innovator representatives into the barriers faced by innovators when approaching network companies.
- 10.11 We have considered the points made and our position is that funding a new provider is in conflict with our objectives of providing a single point of access to services for innovators and ensuring value for consumer money. However, funding an existing provider to enhance their services raises concerns around fairness between network companies, some of whom already channel NIA funding towards membership fees to provide similar services, and those who do not.
- 10.12 Furthermore, our engagement and analysis since Draft Determinations has highlighted the need for greater clarity around membership fees, the associated deliverables, and the availability of sufficiently granular, primary data to track barriers to innovators engaging with network companies.
- 10.13 Therefore we will consider consulting separately on the need for innovator advisory services, across all sectors, with a view to implementing by ED-3. In the meantime, we will explore ways to leverage existing activities, memberships and stakeholders to enhance innovator engagement with network companies. We will continue to gather and scrutinise data from all sectors on the effectiveness of network companies' interactions with innovators, and of the value created by existing services provided for through NIA funding.

Funding level

- 10.14 We have decided to amend our funding levels for most networks, see the table below.

Table 20: RIIO-3 NIA Funding

Company	Funding Requested	Draft Determination	Final Determination
Cadent	£21.5m	£18.0m	£18.4m
NGN	£15.5m	£9.7m	£11.9m
SGN	£30.7m	£6.2m	£24.3m

Company	Funding Requested	Draft Determination	Final Determination
WWU	£37.9m	£12.2m	£18.5m
National Gas	£40.0m	£11.2m	£21.5m
NGET	£135.0m	£117.5m	£117.5m
SHET	£25.5m	£20.0m	£24.0m
SPT	£22.5m	£20.7m	£22.5m
Total	£328.6m	£215.4m	£258.5m

10.15 While most respondents agreed with our methodology for assessing and awarding NIA, all networks disagreed with their individual allowance and provided further evidence to support their initial request. We remain committed to only providing NIA where networks have justified its need, the benefit it brings, and have evidenced that they have the mechanisms in place to deliver projects effectively. Where we have seen robust evidence since Draft Determinations we have increased allowances. This is set out in RIIO-3 Final Determinations Sector and company-specific Annexes.

10.16 In the gas sector, nine respondents expressed concerns around the significant NIA cuts noting it was not sufficient to meet the scale and ambition needed for the transition. NGN suggested that we give GDNs an industry wide allowance managed through FEN and split based on network sizes.

10.17 We think our individualised NIA assessment for each network company remains appropriate to reflect their need, capacity, and priority focus. Taking this approach, NIA allowances have increased relative to Draft Determinations based on improved evidence.

Funding design

Increase oversight of the NIA

10.18 We have decided to retain the Draft Determinations position, to enhance our oversight of the NIA and to introduce changes to increase transparency and improve reporting. Three networks and two non-network respondents emphasised that increased oversight by us would encourage project ownership and accountability. However, almost all 23 respondents (including all network companies) said that our role should reinforce good behaviour, rather than slow down innovation by adding an administrative burden. We agree and will work closely with companies to ensure that oversight takes place in a way that enables innovation, while ensuring value for money for consumers.

Clarify all reporting requirements and address gaps.

10.19 We have decided to retain the Draft Determination proposals and make changes to the NIA Governance Document to increase the transparency and quality of companies’ reporting. We will do this by increasing oversight of the NIA and proactively raising poor reporting with companies, and reviewing current reporting processes. The twenty-three respondents who commented in this area, which included all of the network companies, broadly agreed. Several stakeholders noted the alignment of our Draft Determinations proposals with the recent Citizens Advice report on innovation reporting.⁶¹ We agree with stakeholders’ views and think our changes will improve confidence in the NIA and ensure that projects demonstrate measurable value for money. We will work with stakeholders to update the Governance Document to align with our decision.

Strategic Innovation Fund (SIF)

Purpose: Innovation funding to support net zero projects addressing the biggest challenges facing the energy system, and enabling the rapid deployment of proven innovation.

Benefits: Networks and project partners deliver transformative innovation projects that are deployed at pace and at scale, whilst delivering net benefits to energy consumers.

Final Determinations summary

Design	Final Determination	Draft Determination
UM type	Competitive innovation fund.	Decided at SSMD.
Scope	Continued focus on transformative projects to enable net zero delivery with: <ul style="list-style-type: none"> - Greater strategic direction setting through a Programmatic Approach. - Clearer delineation of work between SIF and NIA. - £50m of funding for rapid deployment of proven innovation. 	Same as FD.
Funding level	Approximately £500m in SIF funding.	Same as FD.
Funding design	- Retain the Discovery phase.	Same as FD.

⁶¹ [Making Innovation Count - A Transparency Review of NIA and SIF Projects - Citizens Advice](#)

Design	Final Determination	Draft Determination
	<ul style="list-style-type: none"> - Retain well-functioning core aspects of the SIF from RIIO-2. - More flexibility in project contribution rate. - Establish more agile SIF oversight. - Updates to eligibility criteria. - Pathway for transformative proposals to receive our support. - Increase collaboration within the innovation ecosystem. - Address gaps in deployment reporting. 	
Applied to	ET, GD and GT.	Same as FD.
Associated document	SIF Governance Document.	Same as FD.

Final Determinations rationale and Draft Determination responses

Scope

Greater strategic direction setting through a Programmatic Approach

- 10.20 We have decided to introduce a 'Programmatic Approach' which means a structured, coordinated and long-term method of achieving our ambitions for net zero in the best interests of consumers. We consider that this will lead to more collaborative delivery between network companies and their project partners and to enable greater collective accountability for outcomes.
- 10.21 The Programmatic Approach's long-term Challenges and core innovation targets for RIIO-3 will be based on recommendations from a Taskforce that has been set up following the Draft Determinations, and long-term SIF Challenges we committed to in the SSMD.⁶² These targets will be refined during RIIO-3 as impacts of innovation projects are understood and lessons are learned, however they are expected to remain largely consistent. If there are major shifts in policy or markets, we may change, add or remove SIF Challenges during the price control.
- 10.22 We have decided to retain the Draft Determination position for there to be a lean and centralised function, led and chaired by us, which oversees the structure of the Programmatic Approach. As part of its work, the Taskforce will make recommendations as to the make-up of this centralised function, which is expected to:

⁶² See para 12.19 of SSMD: [RIIO 3 SSMD Overview.pdf](#)

- Monitor targets, set by the centralised function, to help ensure the pace and scale of delivery needed for GB's energy transition ambitions.
- Evaluate outputs from the Programmatic Approach for evaluation by Ofgem leadership on an annual basis.

10.23 There was general support from both networks and non-networks for the Programmatic Approach, with respondents typically asking for greater detail on how it will work and accountability. All networks emphasised the need to clarify expectations regarding resource and reporting demands, with gas networks requesting equal representation alongside ED and ET. Non-networks emphasised the importance of delivering for consumers and especially the importance of consumer representation in the Programmatic Approach (and ahead of that, the Taskforce's work). Our view is that all these requests for greater clarification on expectations are logical, and we intend to work through these with industry through the Taskforce's work ahead of RIIO-3.

Clearer delineation of work between SIF and NIA

10.24 We have decided to provide increased direction and improved oversight for each of the SIF and NIA so that they work more effectively together as mechanisms to support network innovation. This will be done through their Governance documents, which will also make clear how SIF and NIA are distinct, but related mechanisms. Alongside the Programmatic Approach outlined above, this is intended to provide networks and industry with clearer direction in response to their requests for greater clarity between the NIA and the SIF which was observed across Draft Determination responses.

£50m of funding for rapid deployment of proven innovation

10.25 We have decided to introduce a deployment fund, utilising £50m from the £500m SIF allocation, to enable the rapid deployment of innovation during the price control. All respondents broadly supported the deployment fund in principle, but the need for clear and transparent governance and eligibility criteria was highlighted by several stakeholders - including the need to consult on them. We agree and we recognise the importance of clear and transparent governance. We have already started engagement with networks on the eligibility criteria and application process and will continue doing so prior to the start of RIIO-3. This will be consulted on as part of changes to the SIF Governance Document.

10.26 We have decided to open the deployment fund to all innovations, rather than restricting the fund to those developed through NIA, NIC and SIF, given near unanimous support from stakeholders. One respondent disagreed, suggesting

that our efforts should remain focused on the current scope of innovation funding to maximise its impact and effectiveness. We think pursuing our decision will help maximise the fund's impact and effectiveness for consumers by not unduly constraining its use to a single origin of innovative projects.

10.27 Four respondents requested that the deployment fund does not impact total SIF amounts, and three queried whether £50m would be sufficient, with one requesting that the amount be kept in constant review. We agree and we note that the amount for the deployment fund is additional to SIF funding, which would otherwise be £450m. We agree that the amount should be reviewed in appropriate circumstances (for example so it can be increased if insufficient).

Funding level

10.28 We have decided to allocate £500m of funding to SIF in RIIO-3. The final amount will be determined by projects awarded funding, and we will retain the ability to increase this amount within RIIO-3 to respond to system needs.

10.29 There was broad support from stakeholders for the £500m allocation. All networks were supportive, with some additionally advising that an increase in line with inflation would have been preferable. While all non-network respondents were also supportive, many noted that their support was based on the expectation for more consumer-oriented network transformation during RIIO-3.

Funding design

Retain the Discovery Phase

10.30 We have decided to retain the Discovery phase of the SIF which provides early-stage funding. This is a change in our position in the SSMD (to remove) which we consulted on at Draft Determinations. This change was made because since the SSMD we have introduced improvements to management and enhanced flexibility of the SIF application process to address concerns over excessive bureaucracy, which have been well received. All Networks supported this, while all non-networks responded positively or did not respond to the intention for retaining the Discovery phase.

Retain well-functioning core aspects of the SIF from RIIO-2

10.31 We have decided to retain the core aspects of SIF as outlined in the Draft Determinations, which are as follows:

- The operating model – the SIF will retain the 'Discovery', 'Alpha' and 'Beta' phases.
- Required industry collaboration and third-party involvement.

- Scope of eligible projects - albeit changes are proposed to how we set the strategic direction and determine the frequency of Challenges (see section on Programmatic Approach).
- Funding via the use of system charges.
- Multiple application windows, currently termed 'Cycles', per year.
- The continued use of independent expert panels to evaluate projects.
- Delivery and coordination of the SIF from an appointed third-party. All decision-making power to remain with us.
- Continued SIF oversight to ensure value for money and delivery of impact (but with some proposed changes to improve ongoing project oversight, discussed in paragraph 10.45).

10.32 The feedback we received on continuing and updating these core SIF processes was supportive. All networks agreed with retaining the core features of the SIF with common themes including requests for greater flexibility and efficiencies in processes, such as maintaining the change made during the RIIO-2 to have three funding Cycles per year for Discovery, Alpha and Beta phases. Non-network respondents also agreed, highlighting the need for improving current processes. We have therefore decided to update governance processes following industry engagement and feedback. All of these changes will be reflected in the SIF Governance document for RIIO-3.

More flexibility in project contribution rates

10.33 We have decided to allow more flexibility in the level of the SIF compulsory contribution rate in order to encourage more transformational projects on behalf of consumers. A default 10% contribution rate will apply, with flexibility for us to:

- Remove the compulsory 10% contribution rate for the most risky and high impact projects that benefit consumers exclusively or where the benefits are materially realised beyond networks.
- Increase contributions for less risky projects and those with significant grid edge activities. For example, where innovation uses established, low-risk technologies to create or expand a commercial market, or where the project substantially delivers benefits to network companies and third parties.

10.34 Changing the default contribution rate will be at our discretion. Guidance will be provided, and network companies will be expected to make the case for any change to reduce the default level as part of their application.

10.35 We have decided to maintain the proposed approach from Draft Determinations, as there was overall broad support, alongside requests for more detail and thorough guidance. Ten networks that responded agreed with a more flexible approach to contributions, while asking for more detail and guidance to ensure that it works as intended and does not add greater administrative burden. Eight non-networks responded that they agree with a more flexible approach to contributions, commonly noting that a more proportional approach could enable riskier and more consumer-beneficial innovation projects to be delivered at a greater pace and scale. We therefore believe our decision strikes the right balance between incentivising more transformational projects and ultimately benefiting the consumer.

Updates to eligibility criteria and assessment process

10.36 We have decided to retain our Draft Determination position and revise the SIF eligibility criteria and assessment processes to introduce a more scaled approach. This aims to support higher-quality, more outcome-focused innovation project submissions. The changes will be made in the SIF Governance and are designed to improve how assessors evaluate which projects are most likely to deliver strong consumer benefits, such as through more effective deployment, better dissemination of learnings and stronger impact across the network innovation eco-system.

10.37 All network responses were broadly in agreement with this approach, with some advising that they would appreciate clearer guidance on how to meet the eligibility criteria. Of the eight responses from non-networks, all supported this approach while also requesting more detailed guidance and typically advising that any scaled assessment should prioritise the most outcome-driven innovations. We agree with this feedback and will ensure that it is reflected in updated SIF Governance, which will be consulted on.

Pathway for transformative proposals to gain Ofgem support

10.38 We have decided to maintain the proposal in Draft Determinations to establish a direct pathway for transformative proposals to seek Ofgem's support for funding, by establishing a new process within SIF that will involve:

- Identifying and publicising key areas within the Programmatic Approach where innovation is needed to deliver consumer benefit, but this innovation is unlikely to benefit networks directly.
- Establishing a process for third parties to submit project proposals to Ofgem targeting these innovation areas.

- Facilitating engagement between networks and third parties.
- Collaboratively exploring funding pathways for these project proposals with network companies, although there will be no obligation to take forward any project.

10.39 Out of 22 respondents, most supported the proposal, with several others agreeing in principle subject to caveats. The majority of network companies who responded recognised that the proposal could help deliver wider benefits from transformative projects that might otherwise not be funded. The majority of non-networks were thoroughly supportive, reflecting our position that this pathway could help to empower non-network bodies in energy planning, accelerating innovation impact, and delivering wider benefits. A small number of respondents raised concerns, including about resource burden (if used by third parties to challenge funding rejections), potential confusion for innovators, and the need for clear governance.

10.40 We recognise the importance of ensuring that the pathway process is sufficiently transparent and does not introduce additional administrative burden for network companies. To promote a streamlined approach, we will not introduce a completely new process, instead the pathway will operate within the SIF Governance arrangements, as updated for RIIO-3.

Increase collaboration within the innovation ecosystem

10.41 We have decided to retain our Draft Determination position of clarifying roles and responsibilities, and set up a programme of work to enhance collaboration, transparency and accountability amongst parties active in the innovation ecosystem. This will focus on improvements to structures, communication, and consistency in governance.

10.42 Out of 24 respondents there was near universal agreement that the innovation ecosystem would benefit from improved coordination, streamlining and communication. One non-network felt this could stifle innovation and duplicate the Programmatic Approach, and two networks asked for clarity on how this workstream differs from that approach. This programme of work will be complementary to the Programmatic Approach but will focus on narrower workstreams such as effective and efficient dissemination, rather than strategic innovation challenge setting.

10.43 In a separate request for information following Draft Determinations, we also asked for views on whether the current annual innovation events were serving the needs of network companies and innovators. The majority responded that

Basecamp and the Summit provided only basic opportunities for ideation and dissemination of Projects. Some respondents said the events were good for networking, but not necessarily for follow-on discussions, and were very sales-focused, which made them less impactful.

- 10.44 We agree that there is a case for ongoing improvements to innovation events, challenge setting, data gathering and dissemination of learning. We will work with stakeholders to make these improvements through NIA and SIF Governance structures and further working groups. We will also explore digital solutions to facilitate these activities.

Address gaps in reporting around deployment

- 10.45 We will retain the Draft Determinations position of improving reporting of deployed SIF projects. There was broad support for our proposals to achieve this by feeding into the review of the Innovation Measurement Framework (IMF), and by including case studies and lessons learned in networks' collective Annual Innovation Summaries. Ten network companies recognised that improving these reporting tools would help demonstrate whether innovation funding is delivering real-world benefits - provided that any new reporting measures remain proportionate and pragmatic. Four network and four non-network respondents emphasised that reporting on lessons learned should include not only the successes but also the challenges of post-funding deployment. We agree with this and will work with network companies to ensure that the changes to reporting provide valuable information, while remaining proportionate.

11. Cyber resilience

Introduction

- 11.1 As networks become smarter and more automated, network companies will increasingly rely on interconnected technologies and systems to deliver services to customers. There is a necessity for ongoing investment to ensure companies' network and information systems are adequately protected to detect and prevent cyber-attacks. All network companies are also required to be compliant with the Network and Information Systems Regulations 2018 (NIS Regulations or NIS-R).⁶³
- 11.2 Network companies submitted Cyber Resilience Business Plans (CRBP) covering both information technology and operational technology. To evaluate the network companies' CRBPs, we conducted a bottom-up assessment focusing on the merits of the needs case, deliverability, and costs of each project proposed by the companies.
- 11.3 Due to national security concerns, we cannot provide further details regarding our assessment of CRBPs. Our rationale for the proposed Cyber Resilience expenditure (including the balance between baseline funding and the UIOLI allowances) is detailed in confidential annexes that have been shared directly with the network companies.
- 11.4 Cyber Resilience is supported by the following regulatory mechanisms:
- Cyber Resilience UIOLI allowance - providing flexible funding capped at up to 20% of totex.
 - Cyber Resilience PCDs - that align with the Cyber Assessment Framework (CAF), to track delivery of projects that contribute towards CAF outcomes.
 - a Cyber Resilience Re-opener - enabling potential changes to cyber funding during the price control period.

Cyber Resilience UIOLI allowance

Purpose: Flexible funding for network companies to improve cyber resilience.

Benefits: UIOLI allowances enable companies to undertake small projects where there is a clear needs case, but where the options and costs are unclear at the time of setting RIIO-3.

⁶³ [The NIS Regulations 2018 - GOV.UK](#)

11.5 The final awarded UIOLI allowances are detailed in confidential annexes that have been shared directly with the network companies. We are confident the level of allowances awarded will enable companies to undertake small projects needed to bolster their cyber resilience. UIOLI allowances will be subject to robust reporting requirements similar to those required for cyber resilience PCDs to track their progress.

Cyber resilience PCDs

Purpose: We have assigned PCDs to all the Cyber Resilience allowances in the Final Determinations (except for those subject to the UIOLI allowances above).

Benefits: PCDs will help us to track delivery of projects that are critical to protecting the energy network and reduce funding if projects are not delivered.

11.6 The final PCD allowances are detailed in confidential annexes that have been shared directly with network companies. These are redacted from the public as they cover specific outputs related to critical national infrastructure. PCD allowances are subject to annual reporting to track and scrutinise the progress of delivery. Where PCDs are not fully delivered in line with the outputs listed in network companies Final Determinations, allowances may be reduced at RIIO-3 close out.

NIS-R Cyber Resilience Re-opener

Purpose: To adjust allowances in the event of a significant change to the cyber threat landscape, significant change in government policy or guidance, or the emergence of new technology capable of significantly improving cyber resilience.

Benefits: Helps ensure new projects can be funded to enable compliance with the NIS Regulations by improving cyber resilience.

Final Determinations summary

Design	Final Determination	Draft Determination
UM Type	Re-opener.	Decided at SSMD.
Scope	Cyber Resilience activities that support NIS-R compliance.	Decided at SSMD.
Network company re-opener windows	1 April 2028 - 8 April 2028.	Change - was April 2029.

Design	Final Determination	Draft Determination
Authority to triggered	Yes.	Decided at SSMD.
Applied to	ET, GD and GT.	Decided at SSMD.

Final Determinations rationale and Draft Determinations responses

Network company re-opener window

- 11.7 In the Draft Determination, we proposed to hold the re-opener window in 2029 to align with the end of the 3-year period of UIOLI funding. However, we have decided to move the Cyber Resilience re-opener window to 1 April 2028 - 8 April 2028. All 15 consultation responses we received on this area agreed there should be a network company re-opener window. However, most of the network companies proposed bringing it forward to 2028 to better align with the funding of UIOLI allowances, which - where awarded - cover the first three years of RIIO-3. We agree with this rationale and have moved the re-opener window forward to improve the continuity of potential funding mechanisms during the price control period. Within 2028, we have selected April to align with other re-opener mechanisms.
- 11.8 In addition, one network company requested that an additional Cyber Resilience re-opener window should be added to RIIO-3. We disagree with this as the Authority can trigger additional re-opener windows if we decide that there has been a significant change in the threat or regulatory landscape during RIIO-3.

Our consideration of all RIIO-3 investment spending against compliance the Cyber Assessment Framework

- 11.9 As part of the NIS Regulations, compliance with the CAF Enhanced Profile (EP) by December 2027 is mandatory. Accordingly, all new investments funded through RIIO-3 (including through re-openers) should be specified and delivered in a way that achieves CAF EP compliance. Where urgent security needs require interim measures that are not compliant with EP, companies must provide a clear justification.
- 11.10 We may reject all, or part of, any RIIO-3 re-opener application where we identify avoidable duplication or inefficient expenditure. Similarly, at RIIO-3 close out, and subject to consultation, we may disallow any unjustified or avoidable spending on assets that are not compliant with CAF EP.

12. Data and digitalisation

Introduction

12.1 Digitalisation means improving the way we use data and digital technologies to generate value for consumers and is a key enabler for a more flexible and efficient energy system. In RIIO-3, data and digitalisation will be supported by the following:

- A Digitalisation licence condition, which requires companies to have and update a Digitalisation Strategy and a Digitalisation Action Plan, comply with Digitalisation Strategy and Action Plan (DSAP) Guidance, and to comply with Data Best Practice (DBP) Guidance.
- Baseline funding.
- A Digitalisation Re-opener to adjust funding during the price control period, ensuring delivery of the requirements set out in the Digitalisation licence condition as well as the DSAP and DBP Guidance.

12.2 We plan to progress the Data Sharing Infrastructure (DSI) licence condition at a later date, outside of the RIIO-3 price control process. We consider that the DSI will ensure better data sharing and use of data in the energy sector. The reason for not deciding to implement the licence condition now is that the DSI will not be operational until after RIIO-3 begins.

12.3 Table 21 below shows our final position on the level of baseline funding to support data and digitisation. The reasons for our decisions for each company can be found in the relevant company annexes.

Table 21: Final Position on Baseline Funding to Support Data and Digitalisation

Company	Funding requested	Draft Determination	Final Determination
Cadent	£30.9m	£18.4m	£30.9m
NGN	£9.6m	£9.4m	£9.4m
SGN	£26.8m	£26.8m	£26.8m
WWU	£20.3m	£19.3m	£19.3m
National Gas	£260.5m	£197.4m	£215.4m
NGET	£322.5m	£315.0m	£317.4m
SPT	£88.5m	£80.8m	£82.5m
SHET	£222.2m	£175.0m	£175.0m
Total	£958.3m	£842.2m	£876.7m

Digitalisation licence condition

Purpose: To enable further digitalisation of the energy sector.

Benefits: Shows companies' progress and plans in delivering their Digitalisation Strategy and Action Plans (DSAPs) and ensures Data Best Practice (DBP) compliance.

Final Determination summary

Design	Final Determination	Draft Determination
New obligations for RIIO-3	No changes to the RIIO-2 digitalisation licence in all sectors. Reference to RIIO-ET2 in Draft Determinations was a typographical error and should have referenced RIIO-2 (all sectors).	Change: Retain RIIO-ET2 approach in the digitalisation licence only.
Reporting	Companies will publish regular DSAPs to show progress and future plans on digitalisation, and to demonstrate compliance with DBP.	Same as FD.
Applied to	ET, GD and GT.	Same as FD.
Associated document	DSAP guidance, and DBP guidance.	Same as FD.

Final Determinations rationale and Draft Determination responses

Obligations for RIIO-3

- 12.4 We have decided to retain our Draft Determination position. 14 stakeholders that responded on this area were broadly supportive of retaining the existing licence condition. The existing condition was seen as providing a proportionate and effective regulatory mechanism, with one stakeholder discouraging changes at this late stage in the process. We agree with this sentiment and have generally seen good progress from the network companies in this area during RIIO-2, driven by the existing licence.
- 12.5 We received feedback from four stakeholders on detailed changes to the licence condition or underlying DBP Guidance to promote increased data collection and sharing. We are not updating DBP Guidance as part of the RIIO-3 price control process, as this change is part of a different regulatory process. We are planning to consult on a new DSI licence condition in 2026. This consultation will consider feedback to push companies further with digitalisation. We have taken note of these suggestions and encourage interested stakeholders to engage with future DSI and DBP Guidance consultations.

12.6 We received feedback from stakeholders that the existing reference to licensees using their 'best endeavours' to act in accordance with DBP Guidance was inappropriate. We have not changed this, as compliance with DBP Guidance is fundamental to enabling greater digitalisation and use of data in the sector and to ensure the substantial baseline funding provided for this activity is well spent.

Digitalisation Re-opener

Purpose: A re-opener to allow for the consideration of any further investment in digitalisation infrastructure.

Benefits: To support the further digitalisation of the energy sector that is essential for achieving net zero and delivering more efficient management of the system.

Final Determination summary

Design	Final Determination	Draft Determination
UM type	Re-opener.	Same as FD.
Scope	Investments relating to technological or policy changes and developments that contribute to further digitalisation of the energy sector.	Same as FD.
Authority triggered	Yes.	Yes.
Network company re-opener windows	October 2028.	July 2028.
Materiality threshold	Default materiality threshold (see Chapter 6) still in place. If all investments are due to changes required by the government or the Authority - threshold requirement can be waived.	Default materiality threshold for all projects under this re-opener.
Applied to	ET, GD and GT.	Same as FD.

Final Determinations rationale and Draft Determinations responses

Scope

12.7 We have decided to retain the scope of the re-opener that we proposed in our Draft Determinations and carried over from RIIO-ED2. Five stakeholders provided feedback that the scope was not flexible enough to allow for the investments necessary in the fast-moving digital technology landscape. However, we consider that the existing criteria are suitable for capturing the technological change we expect to see in the price control period. Further, there are other mechanisms for funding which cover emerging technologies (see Chapter 10 on Innovation).

12.8 We received feedback from one stakeholder that the scope should explicitly include unfunded costs for the DSI and National Underground Asset Register (NUAR). We consider that the NUAR falls within its scope for GDNs, as participation in the NUAR is becoming a legislative requirement for GDNs under the Data (Use and Access) Act 2025, and is essential to the contribution of a digitalised energy sector. We agree that adding DSI and NUAR as examples to the re-opener criteria will provide greater clarity and certainty for licensees.

Authority triggered

12.9 We have decided to retain the mechanism for the Authority to trigger the use of the re-opener. However, we have removed the clause requiring modifications to allowances to be 'efficient'. Two stakeholders provided feedback that this term was undefined and would lead to confusion about the circumstances for when this mechanism may be triggered. We agree with this feedback. The criteria for triggering the mechanism now aligns with the criteria for licensee applications.

Network company re-opener windows

12.10 We have decided to retain our Draft Determination position to have a single re-opener window. This position was carried through from RIIO-2 and ED2. We received feedback from six stakeholders that a single re-opener window could be too rigid to accommodate the flexibility and responsiveness needed to allow licensees to update and adopt new technologies during the price control period. However, we did not receive sufficiently strong evidence to justify the creation of a second re-opener window in advance of the price control period. The need for flexibility that the re-opener process provides has to be weighed against the need for certainty in the price control process and the administrative burden that a re-opener window places on us and the network companies. The design of the re-opener allows for a further window to be added during the price control period, if we consider it necessary.

Materiality threshold

12.11 We have decided to retain the materiality threshold as proposed in the Draft Determinations. However, we have introduced an exception mechanism that allows funding for projects below the materiality threshold, but only where those projects are required as a result of changes to legislation, licence conditions, regulatory requirements or industry codes. We received broadly positive feedback on our proposed threshold with one stakeholder noting that it would help avoid excessive re-opener applications and reduce administrative burden.

12.12 We received feedback from four stakeholders with concerns that the threshold could risk leaving critical lower materiality schemes with no funding opportunities.

We do not consider it appropriate to remove or lower the threshold for all criteria. It is an important safeguard to ensure that applications are only made where the additional funding required is substantial enough that it cannot be reasonably met through operational budgets or by redirecting funds. This allows us to strike a balance between enabling necessary investment and avoiding the administrative burden of processing many small-scale applications. However, we agree that where funding is needed for projects required by government or Ofgem, the threshold should not be an artificial barrier to investment.

Data Sharing Infrastructure (DSI) Licence condition (not being progressed as part of RIIO-3 Final Determinations)

Purpose: We want network companies to connect to a future Data Sharing Infrastructure (DSI).

Benefits: This will facilitate greater digitalisation and better sharing/use of data, delivering efficiencies and savings to the sector.

Final Determination summary

Design	Final Determination	Draft Determination
New obligations for RIIO-3	DSI licence condition to be considered separately through consultation once DSI is operational.	Change - open approach on need for new DSI licence condition.
Applied to	Expect all TOs, GDNs and National Gas, but to be considered separately through consultation once DSI is operational.	Same as FD.

Final Determinations rationale and Draft Determination response

12.13 We have decided not to implement a new DSI licence condition for the start of RIIO-3. This is because it is likely that the DSI will not be ready for network companies to connect to at the start of the price control period. We received feedback from eight stakeholders that the elements of the DSI were not sufficiently clear to progress with a licence condition requiring participation in a DSI framework at this stage. We agree with the stakeholders and will instead progress the DSI licence condition on an independent timeline.

13. RIIO-3 in the round, pre-action correspondence and post-appeals review

Introduction

13.1 In this chapter, we:

- Explain how different elements of the RIIO-3 price control relate to each other (interlinkages) and how our RIIO-3 package represents a balanced and fair settlement for consumers and licensees that should be looked at 'in the round'.
- Provide guidance on potential appeals to the Competition and Markets Authority (CMA) - pre-action correspondence, confidentiality and our expectations of how a post-appeals review may take place.

13.2 Our Final Determinations in RIIO-2 and RIIO-ED2⁶⁴ provided guidance on these issues, and our position on them remains as before.

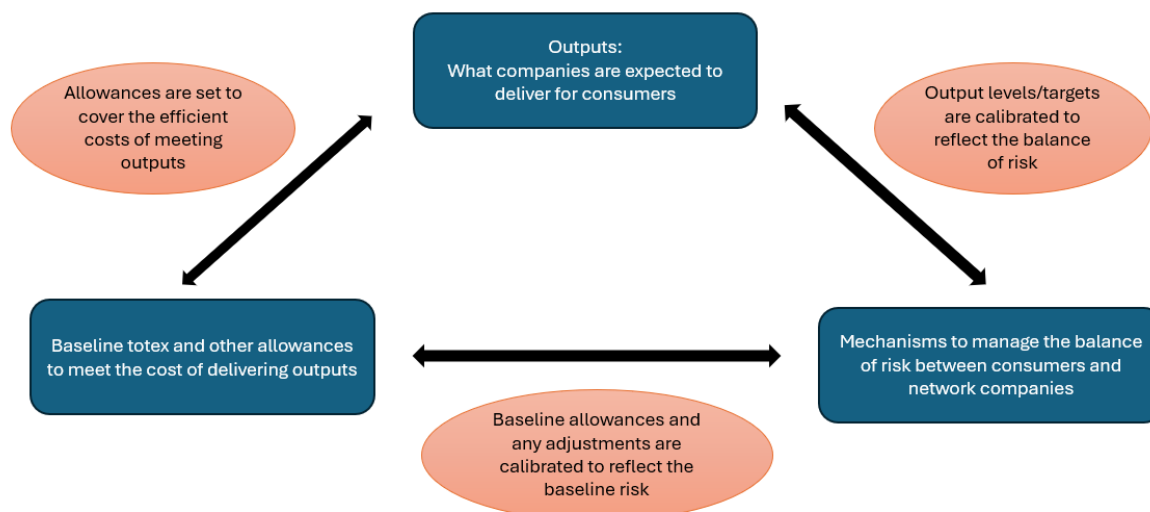
RIIO-3 in the round and interlinkages

13.3 Our RIIO-3 package is a system made up of closely linked but distinct pillars:

- Outputs, which are the activities and outcomes that the companies should deliver for consumers during the RIIO-3 period. This includes, but is not limited to, statutory obligations, Price Control Deliverables (PCDs), Output Delivery Incentives (ODIs), Licence Obligations (LOs) and ongoing efficiency improvements.
- Expenditure allowances, which allow companies to recover the efficient costs of delivering those outputs for consumers through regulated revenues. This includes ex ante totex allowances and other allowances that we set to meet the cost of delivering outputs such as the Weighted Average Cost of Capital (WACC), ODI rewards and penalties, and uncertainty mechanism revenues.
- Uncertainty and other risk mitigating mechanisms to manage and maintain a fair balance of risk between consumers and companies. This includes, but is not limited to, Uncertainty Mechanisms (UMs), Real Price Effects (RPE) indexation, the Totex Incentive Mechanism (TIM) sharing factor, the Business Plan Incentive (BPI), and Return Adjustment Mechanism (RAMs).

⁶⁴ See paragraphs 11.31 to 11.38 of our RIIO-2 Final Determinations and 11.42-48 of our RIIO-ED2 Final Determinations.

Figure 3: High-level overview of interlinkages between outputs, expenditure allowances, and uncertainty/other risk mitigating mechanisms



13.4 There are intrinsic links between these pillars, which means that each of them can affect, and can be affected by, decisions taken in relation to the other pillars. The impact that a change to one component will have on one or more pillars needs to be taken into consideration.

13.5 The RIIO-3 price control should therefore be viewed 'in the round'. From this perspective, we consider it represents a fair and balanced settlement for consumers and licensees within the context of two tests:

- The “notionally efficient licensee”: looking across the package of outputs, allowances, ODIs and UMs, have we set the RIIO-3 price control such that a notionally efficient licensee is able to recover the costs of delivering its outputs and meeting its statutory and Licence obligations?
- The “equity and debt financeability” question: have we set the allowed return on capital so that the notionally efficient licensee is able to maintain an adequate level of credit quality and attract sufficient equity financing to meet its investment requirements? And that the package as a whole is a "fair bet" and reflects an appropriate balance of upside and downside risk.

Pre-action correspondence guidance

13.6 We note that in its most recent amendments to the energy licence modification appeals guide, the CMA said⁶⁵:

⁶⁵ Paragraph 3.12, [CMA71 - Energy Licence Modification Appeals: Competition and Markets Authority Guide](#), 27 October 2022.

"The CMA would also encourage a prospective appellant to inform the Authority that it is considering bringing an appeal. A prospective appellant should tell the CMA in its pre-appeal contacts if it has also contacted the Authority or if it plans to do so."

- 13.7 Given this, we expect any prospective appellant to send pre-action correspondence at a sufficiently early stage. Prospective appellants who wish to engage with us should do so between early December 2025 and mid-January 2026 - after the publication of Final Determinations and before we are due to publish a decision on the corresponding RIIO-3 licence modifications.
- 13.8 We expect potential appellants to clearly explain their intention to appeal, the element(s) of the RIIO-3 price control they intend to appeal, the scope of that appeal, including, in sufficient detail, the alleged errors, and why that particular component(s) of the price control is wrong having regard to any interlinked aspects of the decision (described in the section above).
- 13.9 This guidance is intended to further the overriding objective set out in rule 4.1 of the CMA's Energy Appeal Rules:⁶⁶ to enable the CMA to dispose of appeals fairly, efficiently and at proportionate cost within the time periods prescribed by the Acts. Rule 4.2 states that that all parties to an appeal, and any interveners, must assist the CMA to further this overriding objective.
- 13.10 If a licensee declines to engage in pre-appeals correspondence and subsequently brings an appeal, all parties' costs may be increased by the failure to engage with Ofgem in the pre-action correspondence period (for example, where an appellant incurs unnecessary costs by appealing an issue which could have been easily disposed of by way of pre-appeals correspondence). Ofgem reserves the right to make appropriate submissions to the CMA about costs in these circumstances.

Confidentiality

- 13.11 An appealing licensee should consider whether any information in the Notice of Appeal and accompanying documents (or any subsequent submission) contains sensitive information and provide both the sensitive and non-sensitive copies to the CMA.⁶⁷ The appellant must send the Authority a copy of the full Notice of Appeal at the same time as it is sent to the CMA.⁶⁸
- 13.12 More generally, we draw prospective appellants' attention to the requirement that all sensitive documents sent to the CMA or any other person (therefore including

⁶⁶ [CMA70 - Energy Licence Modification Appeals: Competition and Market Authority Rules](#), 27 October 2022

⁶⁷ Rule 5.4 CMA70.

⁶⁸ Rule 5.5, CMA70, para 1(7) of Schedule 5A EA1989 and schedule 4A GA1986.

the Authority) as part of an appeal should be marked to identify sensitive information.⁶⁹ This requirement is essential to allow us to identify the appellant's sensitive information as we are drafting our response and evidence. If the CMA directs us to file both sensitive and non-sensitive versions of documents, this will allow us to do so in a timely manner, compliant with the Rules. Delays in providing this information to the Authority will impede our ability to provide the CMA and the parties with a non-sensitive version, and risks delay.

13.13 Finally, we note the steer in the CMA's Guidance which "discourages participants from making excessive or blanket confidentiality claims over submissions" and notes that the CMA may consider any such assertions "inconsistent with the overriding objective."⁷⁰

Post-appeals review

13.14 This section sets out further clarification on our expectations of how a post-appeals review may take place.

13.15 We remain of the view, as set out in our RIIO-2 and RIIO-ED2 Final Determinations, that it may be appropriate to conduct a post-appeals review in certain circumstances, namely where the CMA has directed it or asked us to reconsider an aspect of our decision following a successful appeal.

13.16 While we are unable to provide an exhaustive list, we consider this could apply in the following circumstances:

- the CMA quashes the decision(s) appealed and remits to Ofgem for reconsideration with a direction that Ofgem reconsider the decision and consider interlinkages; and
- the CMA quashes the decision(s) appealed, retakes the decision itself but directs Ofgem to consider interlinkages.

13.17 We consider that there is merit in reiterating, as set out in our RIIO-2 and RIIO-ED2 Final Determinations, that this is a possible consequence of an appeal to the CMA. The post-appeals review is not intended to undermine the current appeals framework. The objective of any post-appeals review will be to implement the decision or directions of the CMA, which may seek to ensure that we maintain a coherent regulatory settlement in the round having regard to interlinked areas where the outcome of a successful appeal risks creating inconsistencies within the package.

⁶⁹ Rule 22.1, CMA70.

⁷⁰ Para 4.59, CMA71.

13.18 As explained at RIIO-2 and RIIO-ED2, it is important in particular to note that the scope of the post-appeals review will be limited to the licensee(s) impacted by a direction granted by the CMA to modify their regulatory settlement. We do not consider that it would be appropriate for Ofgem to modify the licences of non-appealing licensees (ie. those who have not appealed any aspect of our Final Determinations to the CMA) following a successful appeal, nor do we consider it likely that the CMA would direct us to do so.

14. Feedback

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

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned decisions?
6. Any further comments please send any general feedback comments to:
RIIO3@ofgem.gov.uk.