

To:

Electricity Distribution
Network Operators; and
Stakeholders

Date: 11 May 2026

Dear Company Secretaries and Stakeholders,

Proposal to modify the RIIO-2 Electricity Distribution Price Control Financial Instruments

We propose to make modifications to:

- RIIO-ED2 Price Control Financial Model (PCFM)
- RIIO-ED2 Price Control Financial Handbook (PCFH)

Please find enclosed the Notice setting out our proposed changes issued pursuant to the relevant Licence Conditions for the sector.

Proposed modifications

In accordance with Special Condition 8.1 of the Electricity Distribution Licence Special Conditions, we are consulting on the proposed modifications to the RIIO ED2 Price Control Financial Instruments:

- the addition of a new pass-through term to the ED2 PCFM to enable recovery of costs associated with connections reform; and
- the addition of a new paragraph to Chapter 7 (Pensions) of the ED2 PCFH setting out the procedure to be followed where the pensions model calculations indicate an expected surplus.

These proposed modifications address issues raised through the ED2 Price Control Financial Model Working Group. We consider that the changes do not constitute a significant modification for the purposes of Special Condition 8.1.

The introduction of a new pass-through term in the ED2 PCFM represents a consequential change required to give effect to an amendment to the Electricity Distribution Licence Special Conditions. The additional proposed paragraph in Chapter 7 of the ED2 PCFH is

intended to improve clarity in relation to the treatment of pensions surpluses.

Timeline and next steps

Subject to the outcome of this consultation, the proposed modifications would take effect from **1 July 2026**.

We welcome representations on these proposals by **8 June 2026**. Details on how to respond are set out in the enclosed Proposed Direction.

Yours faithfully,

Mick Watson

Chief Financial Advisor, Analysis and Assurance

Duly authorised on behalf of the Authority

11 May 2026

SP Electricity North West Ltd (SPENWL)
Northern Powergrid (Northeast) Ltd (NPgN)
Northern Powergrid (Yorkshire) plc (NPgY) London
Power Networks plc (LPN)
South Eastern Power Networks plc (SPN) Eastern
Power Networks plc (EPN)
SP Distribution plc (SPD)
SP Manweb plc (SPMW)
Scottish Hydro Electric Power Distribution plc (SSEH)
Southern Electric Power Distribution plc (SSES)
National Grid Electricity Distribution (West Midlands) plc (WMID)
National Grid Electricity Distribution (East Midlands) plc (EMID)
National Grid Electricity Distribution (South Wales) plc (SWALES)
National Grid Electricity Distribution (South West) plc (SWEST)
(each one a "Licensee," and together, "the Licensees")

Proposed direction under Part C of Special Condition 8.1 (Governance of the ED2 Price Control Financial Instruments) of the Electricity Distribution Licence to make modifications to the ED2 Price Control Financial Instruments

1. Each of the companies to which this proposed direction is addressed (each "the Licensee") is the holder of an Electricity Distribution Licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989
2. Special Condition (SC) 8.1 (Governance of ED2 Price Control Financial Instruments) of the Electricity Distribution Licence provides that the Gas and Electricity Markets Authority (the Authority) may direct a modification to the ED2 Price Control Financial Instruments (the PCFI) where:
 - a. it becomes aware of a modification that will improve the functionality or clarity of the ED2 Price Control Financial Instruments; and
 - b. the modification will have no impact on the licensee's Allowed Revenue.
3. In accordance with Part B of SC 8.1, the Authority has assessed the likely impact of the proposed modifications to the PCFI. Having had regard to the views expressed by the RIIO-2 Price Control Financial Model Working Group, the Authority is satisfied that the proposed modifications reflect:
 - i. a consequential change required to the Price Control Financial Model (PCFM) following a recent modification to the Electricity Distribution Licence Special Conditions; and
 - ii. an improvement to the clarity of the RIIO-ED2 Price Control Financial Handbook (PCFH).

Accordingly, and in accordance with Special Condition 8.1.5, the Authority intends to modify the PCFI by direction.

4. In accordance with SC 8.1.7 the Authority hereby gives notice to the licensees addressed above that it proposes to modify the PCFI in the manner set out in the Appendices to this Notice.
5. On **11 May 2026** the Authority published the text of the proposed direction on its website and invited representations to be submitted by email to **david.simpson@ofgem.gov.uk**. The purpose of the proposed modifications is to reflect a consequential change required to the PCFM following a recent modification to the Electricity Distribution Licence Special Conditions and to improve the clarity of the RIIO-ED2 PCFH. The effects of the proposed modifications are described in the Appendices to this Notice.
6. The Authority received **[number]** representations in response to the consultation. All non-confidential representations have been published on the Authority's website. The Authority has considered the representations received and has decided to proceed with making the direction. The Authority's response to the representations is set out in **[completed issues log / consultation response document]**.
7. **[Where applicable: description of any changes made since the proposed direction]**
8. This direction constitutes the Authority's notice of reasons for the purposes of section 49A of the Electricity Act 1989.
9. The Authority hereby directs the modifications to the PCFI set out in the Annexes to this direction. Appendices 1 and 2 indicate the location of these changes within the Annexes. These modifications will come into effect on **01 July 2026**.

Mick Watson
Chief Financial Advisor, Analysis and Assurance
Duly authorised on behalf of the Authority
11 May 2026

Appendix 1 – Location of modifications within the Price Control Financial Model

Nature of Modification	Sheets	Reference
New row added under pass-through costs for Connections Reform Costs	Select Inputs/Input Summary/Licensee Input Sheets	Pass-through costs section

Appendix 2 – Location of modifications within the Price Control Financial Handbook

Nature of Modification	Reference	Page number
New paragraph added outlining the procedure to be followed where the pensions model calculations indicate an expected surplus	Paragraph 7.47	59