

John Kennedy  
Electricity Distribution Policy  
Ofgem  
10 South Colonnade  
Canary Wharf  
London E14 4PU

26 March 2026

Dear John,

**Re: RIIO-ED2 Load Related Expenditure volume drivers**

I am writing on behalf of National Grid Electricity Distribution (South Wales) plc, National Grid Electricity Distribution (South West) plc, National Grid Electricity Distribution (East Midlands) plc and National Grid Electricity Distribution (West Midlands) plc, collectively known as “NGED”, in response to Ofgem’s Consultation on RIIO-ED2 Load Related Expenditure volume drivers published on 27 February 2026.

Overall, NGED is supportive of the proposed changes and welcomes the constructive engagement with Ofgem through the ENA Load Related Working Group. The Load Related Expenditure volume driver mechanisms have operated effectively to date in RIIO-ED2, and we consider the proposals to represent pragmatic refinements that will help ensure the mechanisms continue to operate efficiently and provide appropriate funding for the work undertaken by DNOs.

Whilst being broadly supportive to the review proposals, we also however, note the following, which require consideration and resolution ahead of Ofgem’s final decision:

**Application of Changes from Year 3**

The consultation states that the changes will only apply to years 4 and 5 of RIIO-ED2. As per previous discussions with Ofgem, we maintain that the outcome of the review should be applied to year 3 onwards, which is consistent and appropriate with both Ofgem’s acknowledgement of the significant level of under-recovery experienced by DNOs in years 1 and 2, the majority of which results from an error in Ofgem’s selection of underground service unit cost, and with the original timescales for decision contained within the Load Related Expenditure Volume Driver Governance Document. The review has only used data from years 1 and 2 of RIIO-ED2 and therefore revisions should be applied from year 3.

**Proposed Low Voltage Services Volume Driver (LVSVD) Ex-ante Allowances**

There are issues with the recalculation of ex-ante allowances for Low Voltage Services Volume Driver (LVSVD) contained within Table 3. The proposed values are for service reinforcement only and do not contain any allowances relating to cut-out changes and fuse changes, which are also covered by LVSVD. As such they are not appropriate to be published in Special Licence Condition 3.9 as LVSVD ex-ante allowances. There are also flaws with the way that CEPA have calculated the ex-ante values for services. Please see our detailed response in Appendix A.

We would welcome the opportunity to work with Ofgem to develop a process for determining revised ex-ante allowances that incorporates all elements of the LVSVD and reflects the need for increasing levels of activity.

#### Correction to RFI Response Statement

The consultation document mentions that not all DNOs provided a response to Ofgem's RFI relating to RIIO-ED2 forecasts, and the supporting CEPA analysis specifically names NGED as one of the DNOs. NGED's RFI response was sent to Ofgem on 19th November 2025, and we received an acknowledgement of receipt from Ofgem on the same day. In the decision document, we request that a correction is published to the incorrect statement that NGED did not provide a response to this RFI.

NGED responses to the specific questions within the consultation are included as Appendix A of this letter.

The consultation document has asked DNOs to provide assurance on cost allocation methodologies, a narrative relating to RIIO-ED2 outturn costs and volumes, and an explanation of the mix of reactive and proactive programmes. These are contained within Appendices B and C of this document.

Should you have any queries in relation to our response or wish to discuss, please do contact either Ruth Crascall ([ruth.crascall@nationalgrid.com](mailto:ruth.crascall@nationalgrid.com)) or Matt Pope ([matthew.pope@nationalgrid.com](mailto:matthew.pope@nationalgrid.com)) in the first instance.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Paul Branston', with a stylized, flowing script.

**Paul Branston**

Director of Regulation  
National Grid Electricity Distribution

## Appendix A – Responses to Consultation Questions

### Low Voltage Services volume driver

<b>Q1. Do you agree with our choice of option 3 for the calculation of the LVSVD unit rates?</b>
<p>We agree with the four criteria outlined by Ofgem in paragraph 2.24 of the consultation document and agree that option 3 is the most appropriate option to meet these criteria.</p> <p>In paragraph 2.21 of the consultation, Ofgem state that they do not present the forecast-based unit costs of Option 4, partially because 'Not all DNOs provided forecast data in response to the RFI, meaning a robust benchmark cannot be derived.' Section 1.2 of the CEPA report states 'Three DNO groups responded to Ofgem's November 2025 Request for Information (RFI) for LVSVD – SPEN, SSEN and UKPN'. NGED's RFI response was sent to Ofgem on 19<sup>th</sup> November 2025, and we received an acknowledgement of receipt from Ofgem on the same day. In the decision document, we ask that a correction is published to the incorrect statement that NGED did not provide a response to this RFI.</p> <p>Notwithstanding the above, we do acknowledge Ofgem's point in paragraph 2.21 that further work would be required to ensure that consistent assumptions would be required to produce a robust forecast value for Option 4.</p>
<b>Q2. Do you agree with our proposed LVSVD unit rates?</b>
<p>Yes, we agree with the proposed unit rates for LVSVD calculated through option 3.</p> <p>Whilst the proportional increase in the overhead unit cost is significant, the actual financial value of the increase is small, and as this is a low volume, the proposed change will have a relatively minor impact.</p> <p>However, we continue to believe the revised unit rates should apply from Year 3 onwards, not solely Years 4 and 5. This aligns with:</p> <ul style="list-style-type: none"><li>• Ofgem's acknowledgement of material under-recovery in Years 1–2, largely resulting from the original underground service unit cost error</li><li>• the review's use of Years 1–2 actual data, supporting implementation following that period, and</li><li>• the original timeline in the LRE Volume Driver Governance Document.</li></ul>
<b>Q3. Do you agree with our proposed recalculated LVSVD ex ante allowance?</b>
<p>We agree that the LVSVD ex-ante allowance should be recalculated to reflect the proposed increase in the unit costs for services. However, we do not agree with the proposals contained within this consultation as they do not represent a complete or robust LVSVD ex-ante allowance.</p> <p>The LVSVD ex-ante allowances contained within Special Licence Condition 3.9 Appendix 3 cover all reinforcement activities contained within the LVSVD mechanism i.e. reinforcement of overhead services, underground services, cut-outs and cut-out fuses. CEPA's analysis was focused only on service reinforcement and therefore the values presented in this consultation reflect just the overhead services and underground services element of the LVSVD ex-ante allowance. The total LVSVD allowance also needs to include allowances for cut-outs and fuses,</p>

and it is not clear how the values in Table 3 will be combined with ex-ante allowances for cut-outs and cut-out fuses to recalculate the total LVSV D ex-ante allowance. The logical solution to derive a complete LVSV D ex-ante value would be to add difference between CEPA's calculated ex-ante allowances and the licence values to the values proposed in Table 3. However, for NGED the value of these differences is insufficient to cover cut-outs and fuses, as demonstrated in the table below:

<b>£m 2021 prices</b>				
<b>Licence Area</b>	<b>Total RIIO-ED2 LVSV D Ex-Ante as per SpLC 3.9</b>	<b>CEPA Calculated total RIIO-ED2 ex-ante for services</b>	<b>Difference – implied RIIO-ED2 cut-out and fuse allowances</b>	<b>Cut-out and fuse actuals: RIIO-ED2 years 1 and 2</b>
West Midlands	18.64	17.63	1.01	1.04
East Midlands	20.94	19.75	1.19	0.47
South Wales	6.55	6.13	0.42	0.77
South West	9.25	8.66	0.58	0.16

We have identified a number of issues in the calculations that CEPA have undertaken to calculate forecast ex-ante values:

1. CEPA have used the current volume driver service unit rates to infer volumes from ex-ante allowances. Ofgem accept that this unit rate does not represent the activity delivered, as it represents unlooping rather than service install, and therefore these derived forecast values cannot be compared against actuals. This has an implication for the calculation of the scaling factor in point 3.
2. CEPA's ex-ante allowance has been calculated by applying the proportion of activities contained within DNOs' RIIO-ED2 BPDTs to the modelled ex-ante allowances. This causes an issue where actual delivery has been different to forecast, as is the case within NGED where actual expenditure on reinforcement of cut-outs and fuses accounts for a larger share of total LVSV D than forecast.
3. The use of scaling factors at total DNO level is inappropriate. There is a wide variability in DNO delivery volumes, and a number of DNOs have significantly exceeded their annual allowances in RIIO-ED2 to date. Given the importance of this work to facilitating the connection of LCTs and the expectation that programmes will increase over the remainder of RIIO-ED2 and into ED3, the level of ex-ante allowances should be tailored to each DNO by either continuing current high levels of delivery or by incorporating an increase for those DNOs where out-turn is below expected levels. Incorporating these sensible increases to ex-ante allowances in anticipation of increased programmes would enable the volume driver mechanism to continue to operate in a mechanistic way, reducing the requirement for disproportionate Ofgem and DNO intervention.
4. The total ex-ante values taken from Ofgem's PCFM interface file are incorrect for NPg and are higher than the values contained within SpLC3.9. This has implications for the calculation of the scaling factor in point 3 above.

We would be happy to work with Ofgem to develop a process for determining revised ex-ante allowances that incorporates all elements of the LVSV D and reflects the need for increasing levels of activity.

<b>Q4. Do you agree with proposed change to the LVSVD metric?</b>
We agree with the proposed change to the LVSVD metric. The increase to the threshold recognises that service and cut-out reinforcement is not always related to looped services, but instead is a valid activity in ensuring that the rating of assets is appropriate to support LCT connection.

## Secondary Reinforcement volume driver

<b>Q1. Do you agree with our proposed changes to the SRVD metrics?</b>
Yes, we agree with the proposed changes to the SRVD metrics. These changes will allow DNOs to more efficiently deliver a broader range of required reinforcement projects, without the risk of volumes being disallowed.
<b>Q2. Do you agree with our proposal to change the SRVD Cap for SP ENW?</b>
Yes, we agree with the proposal to change the SRVD Cap for SP ENW.

## **Appendix B NGED LVSVSD Cost Allocation Methodology**

NGED does not generally undertake any cost allocations in relation to LVSVSD costs. Within corporate systems, we have set up a range of cost codes to reflect regulatory reporting requirements. These codes are selected at project design stage and are used throughout the life of the project to collect delivery costs. Where projects are undertaken to deliver more than one regulatory activity (e.g. underground cable reinforcement and underground service reinforcement), multiple cost codes will be used.

During the data analysis undertaken to respond to Ofgem's RFI of 14<sup>th</sup> January 2026, it was identified that there had been some mis-coding on a small number of service reinforcement projects within EMID, SWALES and SWEST. In these instances, the existing overhead looped services had been replaced with new underground services. The correct coding on these projects should have been underground services, to reflect the installation of the new service, however the planners selected codes reflecting the reason for the works (i.e. reinforcement of the overhead service).

NGED's total expenditure on LV Service OHL reinforcement in RIIO-ED2 to date (2023/24 and 2024/25) is £0.4m (across all 4 licence areas). This is approximately 3% of our total spend on LVSVSD, and less than 1% of our total spend on Secondary Reinforcement. The overall impact of these mis-allocations is therefore very small.

We have updated the code descriptions within our planning system to ensure that it is clear that the code selected should reflect the installed asset.

We will restate 2023/24 and 2024/25 cost data for affected activities in the 2025/26 RRP Annex B Cost, Volumes and Revenue submissions.

During RRP compilation, data reviews are undertaken on activities appropriate to the level of expenditure and in relation to previously identified risks. Whilst the overall level of expenditure on overhead service reinforcement is extremely low, specific project reviews will be undertaken on Overhead Service reinforcement projects during future RRP compilation following this identification of project mis-coding. Expenditure will be re-allocated if any mis-coded projects are identified before RRP submission.

## **Appendix C NGED LVSVD RIIO-ED2 Out-turn Narrative, including Proactive and Reactive Programmes**

The volume and types of activity within the LVSVD programme has proved different to our RIIO-ED2 Business Plan forecasts, particularly in relation to the volume of cut-out changes and fuse upgrades, which are both significantly higher than expected. We consider that the programme delivered during the first two years of RIIO-ED2 is indicative of the programme for the remainder of the price control. Volumes of activity differ across the licence areas, reflective of the impact of LCT volumes and different historical practices relating to the services and meter-point equipment ratings. As contained within in our response to RF11, we anticipate further increases in volumes of all LVSVD activities based on LCT volume forecasts.

The actual unit costs for underground services are generally in line with our RIIO-ED2 Business Plan expectations within West Midlands, East Midlands and South West. These actual unit costs are above the volume driver unit cost, and are in line with the Option 3 unit cost. Due to the type of reinforcement schemes and specific network characteristics, the unit cost for underground services is higher in South Wales.

We incur unit cost challenges, as outlined to Ofgem previously and as recognised within the consultation documents, driven by the location of the existing service and/or meter position, the location of the LV main, and/or customer requirements for the installation of a new service. These issues result in costs to facilitate the installation of the new service, such as internal re-wiring due to the location of the incoming service, or extended service routes and alternative excavation techniques to avoid unwanted disturbance of customer driveways.

Achieving the volume driver unit cost for overhead service reinforcement is proving particularly difficult. The unit rates used within the Business Plan forecasts were based on the stand-alone installation of an overhead service. We are finding that other costs above the installation of the new service are frequently incurred relating to the supporting overhead networks. These additional costs, such as for extra poles, are required in order to ensure that the network remains compliant with NGED policy requirements, and as a result our actual unit costs are above volume driver unit rates.

Our programmes will continue to be mainly reactive over the remainder of RIIO-ED2 in order to manage the impact of the volumes of LCTs already, or forecast to be, connected. We are developing proposals for an increased pro-active programme, alongside other secondary reinforcement, for our ED3 Business Plan.