



Response to the Ofgem RIIO-ED2 Load Related Expenditure volume drivers consultation

KEY POINTS

- We support the proposed increase in unit rates to £1.44k for overhead line (OHL) services and £2.65k for underground (UG) services.
 - However, we do not believe that Option 4 was given appropriate scrutiny as our data was erroneously excluded from this option under the pretence that we did not provide the data, when in fact we did.
 - Ofgem may wish to reassess the work of CEPA and how the data for Option 4 was collated from DNOs.
- There are two issues in the calculation of the revised ex-ante allowances.
 - The ex-ante allowances used in the calculation are the original Final Determination (FD) values rather than the lower values set out in Special Condition 3.9, which were adjusted following the CMA process. This error has a material impact, and on correction reduces the revised ex-ante allowances for Northern Powergrid and, in turn, creating a consequential – albeit inverse and proportionally smaller – effect on the allowances of all other DNOs.
 - The revised allowance per Table 3 of the consultation omits the cut out and fuse upgrade elements of the LVSVD funding mechanism. These categories were excluded to calculate the change resulting from the revised service unit costs but were not added back in as a final step.
- We are in agreement with the proposed changes to SRVD metrics as the revisions better reflect the operational realities faced during ED2.
- Whilst we do not oppose the increase in SRVD Cap for SP ENW, further guidance within the RIGs from Ofgem is required regarding the treatment of incremental costs and schemes that contain multiple cost drivers.
 - We do not split costs for discrete assets across multiple reporting tables, as doing so introduces risks related to data consistency, auditability, and the potential for misalignment in the intent of the volume driver unit cost and subsequent benchmarking.
 - Clear direction is needed to ensure consistent reporting approaches across all DNOs and to prevent unintended distortions in comparative assessments.

2. Detailed responses to the core document questions

1. This section of the consultation response sets out Northern Powergrid (Northeast) plc and Northern Powergrid (Yorkshire) plc's responses to Ofgem's core document detailed questions.

Low Voltage Services volume driver

Q1. Do you agree with our choice of option 3 for the calculation of the LVSVD unit rates?

2. We support the selection of Option 3 for calculating the LVSVD unit rates. Whilst we recognise the rationale for discounting Option 4, particularly the challenge of deriving a consistent unit rate from DNO forecasts, we would also like to address the consultation's reference to several DNOs not responding to the November 2025 Request For Information (RFI).
3. CEPA's report suggests only three companies provided forecast data, of which Northern Powergrid were not one. However, we submitted a full response to the RFI within the agreed timescales and believe other companies also did. It's not clear whether the inclusion of the other company data would have changed the other rationale for excluding Option 4, but it is disappointing to see that it was not factored at all. Whilst much of the data would have been estimated by DNOs, an element would have been based on more up to date actual information available between April and November 2025.
4. Of the remaining options, Option 3 provides a robust basis for recalculation, as it leverages the most recent information available through ED2 Year 1–2 actuals. In addition to removing the volume-doubling adjustment previously applied to SP ENW and NGED, it incorporates actual ED2 outturn unit rates which offer the most accurate reflection of the real-world cost pressures currently faced by DNOs. Of the options provided, Option 3 provides transparent cost reflectivity and is the most effective option to mitigate against lower unit rates discouraging delivery.
5. We agree that other options discounted by Ofgem, such as company-specific unit rates (rather than an industry benchmark) and separate unit rates for different types of activity (e.g. proactive versus reactive) or engineering solution would be resource intensive for both Ofgem and the DNOs. These approaches could also dilute the benefits of comparative efficiency pressures and increase the risk that inefficient costs are passed on to consumers. Given the unit cost changes will be applied to years four and five of ED2 only, we agree that the use of an industry median, as presented in Option 3, is the most appropriate choice for the LVSVD unit rate.

Q2. Do you agree with our proposed LVSVD unit rates?

6. We agree with the proposed LVSVD unit rates set out in the consultation of £1.44k for OHL services and £2.65k for UG services. The methodology (using ED2 Years 1–2 outturn costs and volumes) provides a transparent and evidence-based approach for recalibrating the unit rates. By grounding the calculation in actual delivery data, the proposed rates more accurately reflect the costs that DNOs are currently experiencing and reduce the risk that proactive volumes are deferred due to under-recovery.
7. We consider the adjustments made to remove outliers and normalise cost differences on the OHL median unit cost to be reasonable and proportionate. Although we have not delivered overhead service volumes in Years 1–2 and therefore cannot provide additional evidence specific to OHL costs, we agree that the rationale for the proposed unit rates is sound. On this basis, we agree with of the proposed UG and OHL LVSVD unit rates for Years 4–5 of ED2.

Additional data assurance

8. In the consultation, Ofgem state a concern over the confidence in the proposed unit cost, specifically due to outlier results skewing the unit cost. As the chosen methodology uses a median unit cost which, by definition, is insulated to outlier results Ofgem can be confident that neither the high nor low results are influencing the value.
9. We recognise that our results are toward the lower end of the distribution and although our results are not affecting the median, Ofgem can be confident in the validity of our data. We understand the drivers on the DNOs that are facing higher unit costs due to the logistical and operational challenges of working on LV services and expect as our programmes advance that we also will begin to see these additional costs more frequently.
10. We have a robust data assurance process for the regulatory reporting, and our cost allocation methodology is driven by detail contained within contractor invoices with each element of the LVSVD works (service, cut out and fuse upgrade) clearly identifiable. As a further quality assurance check the values reported in the RRP are reflective of our agreed schedule of rates with contractors.
11. We have seen a switch in focus away from proactive toward reactive service upgrades in Year 2. We expect the emphasis to continue to be on reactive programmes through the remainder of ED2 as we support local authorities and housing associations mass LCT applications to unloop properties. However, there remains significant uncertainty over forecast volumes and a wide range of potential outcomes. The increase in the UG unit rates also provides some protection against an increase in reactive works which are typically more expensive due to site-specific complexity.
12. Our proactive unlooping is delivered through a dedicated work programme and is most often delivered as part of other LV network asset replacement or reinforcement works. This approach allows us to record both the number of properties unlooped and the associated volume driver interventions, ensuring the accuracy and completeness of reported data.

Q3. Do you agree with our proposed recalculated LVSVD ex ante allowance?

13. Our review of the recalculation of the LVSVD ex ante allowances raises two issues, that the original allowances used are incorrect and that Ofgem did not add back in the proportion of allowances that it initially removed for the purpose of the calculation.
 - a. There is an error in the original ex-ante allowances referenced in Table 3 of the consultation document. The ex-ante values used (£21.30m for NPgN and £36.08m for NPgY) correspond to the pre-CMA adjustment figures. The correct post-CMA values, as set out in the Appendix 3 of SpC 3.9, are £18.59m and £31.43m for NPgN and NPgY respectively.
 - i. Using the incorrect values affects the derived volumes for Northern Powergrid and also the scale factor calculation that applies across all DNOs and from which the revised ex-ante allowances are derived.
 - ii. Using a corrected scale factor of 102.4% calculated on post CMA allowances for Northern Powergrid, the correct revised ex-ante allowances are £24.84m and £36.16m for NPgN and NPgY respectively (with associated reductions of £5.97m (NPgN) and £10.92m (NPgY) compared to the values in Table 3). The impact on the other DNOs of a change in the volume scalar is an increase of £12.44m in revised ex-ante allowances. We have included revised workings in a supporting excel file.

- b. The Final Determination LVSVD allowances include components relating to cutout changes and fuse upgrades, which have been omitted from the updated figures presented in Table 3. These elements must be reinstated to determine the full LVSVD allowance.
- i. Given that there were no changes to the unit cost allowances for cutouts and fuses, this can be remedied by adding back the difference between the corrected Table 3 ex-ante allowances and the licence ex-ante values. These values have been calculated as £4.58m and £7.74m for NPgN and NPgY respectively, using the post CMA allowances.
 - ii. A summary of the revised allowances is shown below. We have provided a copy of our workings alongside this response.

Table 1: NPgN and NPgY revised ex-ante allowances (£m, 2020/21 prices)

	NPgN	NPgY
Revised ex-ante allowances (Per Option 3) for OHL and UG services	24.84	36.16
Add ex-ante allowances for cut outs and fuse upgrades	4.58	7.74
LVSVD revised ex-ante allowances	29.42	43.90

Q4. Do you agree with proposed change to the LVSVD metric?

14. We agree with the proposed upwards adjustment to the metric threshold to 40%. We agree that this will ensure sufficient headroom and mitigate against DNOs being unnecessarily penalized for delivering works that support LCT ambitions.
15. The consultation wording is unclear in stating that the “exceedance threshold should increase by 40%”. Ofgem has since verbally clarified that the threshold is increasing to 40%, rather than by 40%. This distinction should be made explicit in the next published updates to avoid ambiguity. The remainder of our response to this question provides more detail on each of the tRESP outputs.

Secondary Reinforcement volume driver

Q1. Do you agree with our proposed changes to the SRVD metrics?

16. We support the proposed changes to the SRVD metrics. We agree that the refinements set out in the consultation provide a clearer and more representative basis for assessing secondary reinforcement activity across DNOs. The updated metrics better reflect the operational realities faced during ED2.

Q2. Do you agree with our proposal to change the SRVD Cap for SP ENW?

17. We are not directly opposed to increasing the SRVD Cap for SP ENW, but we do have reservations regarding the cost drivers that underpin the proposed change.
18. The justification for raising the cap relates to expenditure incurred on the ‘opportunistic upsizing of transformers’ and the ‘splitting of HV feeder networks with more than 2,500 customers’. For transformer upsizing specifically, SP ENW proposes that the cost of a like-for-like replacement is reported under the primary driver for the replacement, with the incremental cost of the upsized transformer being reported through the volume driver.
19. Our understanding is that the volume driver unit cost allowance £/MVA was set based on establishing new capacity (i.e. the full cost of replacing a distribution transformer with a larger unit) and not the

incremental cost for upsizing a transformer. There is therefore a risk of overfunding a DNO for these activities.

20. We do not disaggregate the cost and volumes of discrete assets across multiple reporting tables. Instead, we report the full cost against the primary driver only in accordance with our ED2 business plan. We believe splitting costs in this way introduces risks, including the potential for double counting asset movements or reporting capacity added without the corresponding asset movement. In the case of a transformer replacement, this could result in a DNO receiving both Network Asset Risk Metric (NARMS) benefit and volume driver funding for the same intervention.
21. We would therefore welcome further guidance within the RIGs on how incremental costs and schemes with mixed drivers should be treated by DNOs to ensure consistency and accuracy of reporting. It is clear that DNOs are currently adopting different approaches, which will affect not only ED2 reporting and performance within the CVR suite, but also in period allowances, benchmarking, and ultimately the ED3 price control determination.