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Consultation on RIIO-ED2 Load Related Expenditure volume drivers

Dear John and David,

Thankyou for the opportunity to respond to your consultation on changes to the load related expenditure (LRE) volume drivers.

We welcome Ofgem's recognition of the current limitations the design of the volume driver mechanisms has created. The steps proposed in the consultation will revise the mechanism so that going forward it is more cost reflective, provides sufficient safeguards for customers, whilst allowing DNOs to proceed with proactive unlooping plans and secondary network reinforcement at pace with greater confidence that the metrics will not act as a throttle to efficient investment.

If you have any questions or wish to discuss these points, please do get in contact with myself or Alison Scott.

Yours sincerely,

Paul Auckland

Paul Auckland
Head of Economic Regulation and DSO

Appendix 1 – response to consultation questions



Appendix 1 – SP ENW response to specific consultation questions

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

Summary

Yes, we agree with the selection of option 3 for LVSVD unit rates for overhead and underground service cable activity.

We welcome the recognition of the impact of the adjustment made by Ofgem at Final Determinations on volumes that created an inconsistency between the cost per property and the cost per asset. This correction (shown as option 2) should be made at an absolute minimum. The impact of this adjustment has resulted in all DNOs receiving lower allowances than expenditure incurred for years 1 and 2 of the current price control. This should be remedied at the earliest possible opportunity.

We welcome the analysis undertaken by CEPA, which provides a useful independent review of the options available and agree with CEPA and Ofgem that option 3 is methodologically coherent, improves cost reflectivity and mitigates risk of disincentivising delivery.

When DNOs were required to submit business plans in 2021, unlooping was not an activity that was undertaken in any notable volumes, it was on a reactive and small-scale basis, was not easy to retrospectively break out from historic reporting and whilst there was an understanding of the nature of the work to be carried out, the specific challenges, frequency and impact were not known.

We recognise Ofgem and CEPA's observation that utilising actual out-turn costs (option 3) requires confidence in the data and may have limitations. Our response seeks to provide further confidence to Ofgem on the basis of our submitted data.

We agree with CEPA that ED2 outturn costs are a more reliable measure of the unit costs of volumes delivered to date. We provide further details on our experience and plans in this area below.

We note that the consultation stated that some DNOs, including ourselves, did not reply to the November RFI or put forward proposed unit costs and therefore option 4 was not progressed. We would like to correct the record by confirming that we did respond to the RFI and did provide proposed future costs. Our proposal was to use the industry median of actual unit costs across years 1 and 2 and implement them for years 3 to 5. This was detailed in our RFI response. We welcome Ofgem making this correction in any future publication and explaining what Option 4 would look like when taking into account all the RFI responses received.

SP ENW data assurance

For submitted costs and volumes in years 1 and 2 SP ENW follow the requirements and principles within Ofgem's Data Assurance Guidance (DAG) document. We have business processes in place to assure the integrity of the regulatory data we submit and publish, and these processes form an integral part of our risk management, assurance and compliance framework which has executive oversight.

All regulatory submissions are graded in line with the DAG and risk-based methodology. Our review process is dependent upon the complexity and the assessed risk level associated with the submission.

Our approach ensures that the appropriate level of scrutiny is placed on each submission and that all managers who sign-off submissions recognise their role in data assurance.

SP ENW actual costs

We have not identified anything in our reporting for years 1 and 2 of LVSVD activity to indicate that there are temporary or one-off factors that may skew the median unit cost.

We do recognise that the volumes we have reported for OHL services are 25 over 2 years and therefore a relatively low sample size for SP ENW, however across all DNOs the volumes for the first two years are in excess of 1,000 therefore providing a greater sample size and greater assurance for Ofgem that they are updating costs based on a representative sample.

As Ofgem understand, an unlooping activity consists of costs associated with the service cable itself, the cutout and the fuse. Some of this work is relatively straightforward, whilst many other scenarios have complications such as excavations needed in private property, internal work, alterations to service position points etc.

For our reported outturn costs in terms of cost per intervention, we have exceeded unit rates in each of the volume measures. Whilst the cost for cable jointing, use of vehicles, and other labour costs are contractually agreed, we frequently incur higher costs for the excavation and reinstatement of driveways/gardens depending on the particular property. We have also borne significant additional costs for works carried out beyond the cut-out. Typically, this has been where we have had to move the existing cut-out to an outside viewing cabinet in cases where we are unable to install a new cable to the existing cut-out position due to it being set back within the property, incurring additional costs to install a sub main from the new location back to the consumer unit.

The cost of this intervention has ranged from £100's to £1000's depending on the individual property, significantly impacting on unit rate per intervention.

Reasons for variance to current allowed unit cost

As we describe above, the most frequent complexity experienced for unlooping jobs is either where higher costs for the excavation and reinstatement of driveways/gardens are required or where works internal to the property are required.

Collaborative work across the DNOs has identified a number of typical scenarios experienced listed as:

- Internal works required to facilitate a service upgrade

- Excavation and reinstatement required for imprinted or resin concrete driveway
- Under-eaves services or mural wiring
- Multiple properties affected by relocation of service/cut out position
- Existing mains cable located across the road or in the footpath
- Relocation of service/cut out position
- External cut out location in garage requiring excavation

Work mix

For the first two years of ED2, SP ENW have taken a largely reactive approach to unlooping. Analysis of our years 1 and 2 volumes show that our work has been 97% reactive and 3% proactive.

Trials to undertake a proactive approach have been initiated in 2025 to seek to test perceived benefits:

- Improve delivery time
- Delivery based on Network Operator upgrading the network, rather than for one specific neighbour/customer, thereby improving customer acceptability
- Improve Contractor Resilience
- Enable use of different / better technology - e.g. trenchless moling

Whilst these trials are in their final stages, our early learning supports some of these potential benefits, so our strategy is to continue to develop a more proactive approach, including expanding our contractor base in order to speed up delivery and increase volumes as we look to continue to ramp up for the remaining duration of ED2 and into ED3.

Our forecasted volumes reflect this strategy however continue to be contingent on customer acceptability, resources and supply chain lead-times.

It is widely recognised that as DNOs across the country seek to increase their volumes, this will have an impact on both resources and supply chain.

By adopting a more proactive approach and learning from our trials, we will seek to mitigate these risks by forward planning and hypothesise that the proactive nature will also increase customer acceptability of these works.

The biggest barrier to reactive works will continue to be customer willingness to have excavations on their property, particularly in the case of driveways with certain materials.

We anticipate an increase in proactive volumes will result in a modest decrease in reactive volumes.

With a greater proportion and ramp up of a proactive programme our forecast of work mix (shared in our RFI response) is that the total volumes across all asset types when totalled across all 5 years will be approximately 50/50 split between reactive and proactive. Our indicative year 3 numbers support this position.

We also highlight that based on data shared across all DNOs that the ratio of proactive to reactive underground service cables is approximately 50% thereby giving Ofgem sufficient confidence that the median rate is reflective of a blended mix of work and not influenced by one particular type of activity.

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

For the reasons described in our response to the question above, yes, we agree with the proposed LVSVD unit rates.

Whilst there is no specific question in the consultation on the implementation of the changes proposed, we note that Ofgem state that changes, if adopted, will apply for years 4 and 5 of ED2.

Our understanding throughout the volume driver review process, for which discussions began in June 2025, was that the review was looking at the performance in years 1 and 2 and any changes would therefore be effective from year 3 onwards (1 April 2025). We consider that this is compatible with the LRE Governance Document, is in line with some discussions in working groups and is how the Ofgem RFI was framed.

Ofgem position to only apply changes for years 4 and 5 is a significant change relative to our expectations.

We ask that Ofgem consider the date of application of any changes and make these applicable for year 3 through to year 5 of ED2. We also ask that any future review or governance document is drafted with sufficient clarity on timings so that expectations are clear at the outset precisely when the reviewed rates will be determined by and when applicable from.

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

We understand that the value shown in table 3 is not the full ex-ante allowance that will need to be revised in our licence and explain further below.

For SP ENW, the ex-ante allowance provided at Final Determination is £21.18m as defined in Appendix 3 in Special Licence Condition 3.9 as shown in the extract below.

Appendix 3

SRVD and LVSVD – Ex ante allowances and caps for the Price Control Period (£m)

Licensee	SRVD (£m)		LVSVD (£m)	
	Ex ante allowance for RII0-ED2	SRVD Cap	Ex ante allowance for RII0-ED2	LVSVD Cap
ENWL	19.77	39.20	21.18	110.83

Table 3 within the consultation (extract shown below) shows ex-ante allowance of £13.48m and then re-calculates the ex-ante allowances based on options 1, 2 or 3. However the ex-ante allowance shown in table 3 only cover the allowance for OHL and UG service cables, whereas the ex-ante allowance shown in the licence covers all 4 asset types, therefore including the portion of ex-ante allowance assumed to be for cutouts and fuse upgrades, where unit costs are not proposed to be changed.

Table 3: Recalculated ex-ante allowances based on options

Allowed expenditure, £m	Ex-ante allowance	Option 1	Option 2	Option 3
SP ENW	13.48	15.33	18.09	20.12

From further source files provided to us by Ofgem, we have confirmed that the £13.48m ex-ante allowance relates to service cables only and therefore can derive that the difference i.e. the £21.18m (existing total LVSVD ex-ante allowances) minus £13.48m (derived ex-ante allowances relating to UGC and OHL service cables only) = £7.70m. This £7.70m can be derived to relate to the costs for cutouts and fuse upgrades.

As Ofgem are not proposing any change to unit rates for cutouts and fuses, then this £7.70m existing ex-ante allowance needs to be added back onto the respective option chosen – i.e. if option 3 is selected in accordance with the Ofgem minded to position, then that would result in a total revised ex-ante allowance of £27.82m (£20.12m plus £7.70m). Our calculation and phasing is shown below:

Asset type	2024	2025	2026	2027	2028	Total
UG and OHL Cables	2.88	2.58	2.52	4.88	7.26	20.12
Cutouts and fuses	0.67	1.00	1.54	1.80	2.69	7.70
Total	3.55	3.58	4.06	6.68	9.95	27.82

This is the revised ex-ante allowance for ourselves which should be updated within the licence and other documents that will enact this change based on the values shared in the consultation.

However further to this we understand that the values in the consultation for the two NPg licensees show ex-ante allowances set at ED2 Final Determinations (December 2022) and do not reflect the modification made to these allowances in February 2024 as a consequence of the redetermination of NPG's allowances. Updating these values will have an impact on NPG inferred volumes, therefore affecting the scalar used for all companies and therefore the ex-ante allowances for all companies.

We ask for separate follow up with Ofgem on the impact of these changes to ex-ante allowance values, whilst noting that this will not affect the principles of this consultation, nor the proposed changes to unit rates.

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

Yes, we agree to the metric tolerance being increased from 20% to 40%. This will allow stand-alone programmes to continue without being unduly facing risk of disallowance.

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

Yes, we agree with the proposed changes to the SRVD metrics. The changes in the consultation appropriately resolve the issues identified by DNOs, whilst maintaining appropriate safeguards for consumers against inefficient investment.

The Secondary Networks within the UK electricity distribution system are critical in ensuring the delivery of electricity from primary distribution systems to end users. They bridge the gap between our EHV network (132kV and 33kV) and the diverse range of customers who rely on a stable and efficient supply of electricity.

Secondary Networks must evolve to accommodate the increasing load demand and ensure seamless integration of distributed generation. With demand on secondary networks only forecast to increase, timely intervention is crucial. By investing now in robust Secondary Networks, we can ensure that we are well prepared to maximise opportunities provided by consumer energy resources (CERs) as more DERs come online.

The way that the metrics are currently calibrated promotes a 'just in time' approach, only looking ahead one year ahead and with low tolerance levels set for any investment based on a longer time horizon. This risks a reactive approach to reinforcement where investment is only carried out after reaching capacity thresholds therefore creating a piecemeal approach and delaying or disincentivising holistic, integrated network planning and pushing investment out into future years.

The metrics were also set ahead of the implementation of Access SCR reforms, meaning that they are not reflective of changes in demand driven by evolving connections activity as a result of the reform.

By investing ahead of constraints occurring DNOs can avoid more costly and disruptive piecemeal reinforcement, aligning with Ofgem principles of efficiency, minimising disruption and optimising investment to deliver value for consumers.

We fully agree with the changes proposed, which use a longer-term forecast and reasonably tolerance levels of variation and are assessed on an overall price control period view.

This will allow us to deliver more proactive, efficient reinforcement across the secondary network— ensuring capacity is provided in the right place at the right time, at lower long-term cost to customers.

Critically, the revised metrics better align our investment approach with regional decarbonisation needs, supporting EV uptake, heat electrification and local authority plans through timely, anticipatory capacity creation.

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

Yes, we agree with the proposal to change the SRVD cap for ourselves. This action will appropriately implement the Final Determination of our Load Related Re-opener (LRR) application for secondary reinforcement whereby Ofgem stated that these should be progressed through the volume driver mechanisms and its associated review process.

We expect our SRVD expenditure to rise significantly over the remainder of ED2, moving from current allowance utilisation levels to exceeding our capped allowances by the end of the period.

This is driven by several key factors:

- Firstly, increasing transformer utilisation across our secondary networks is triggering a higher volume of transformer replacement and upsizing investments, directly increasing SRVD-eligible activity.
- Secondly, following the LRR Final Determination, SP ENW will restate and incorporate transformer-upsizing interventions into the Volume Driver mechanism as per Ofgem's LRR decision. This adjustment— combined with a substantial programme of HV feeder splitting affecting more than 2,500 customers—will increase volumes, with the majority of impacts falling in FY27 and FY28 as projects move into delivery.
- Third, as we accelerate our proactive unlooping programmes, this results in LV mains reinforcement and associated interventions adding further expenditure into SRVD volumes.

Collectively, these drivers create a step-change in volumes through the SRVD mechanism, resulting in an upward expenditure trajectory that leads SP ENW to forecast exceeding our ED2 allowance cap well before the end of ED2.