

Registered Office:  
Newington House  
237 Southwark Bridge Road  
London SE1 6NP

Company:  
UK Power Networks  
(Operations) Limited



Registered in England and Wales No: 3870728

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

By email only to: [RIIOED2@ofgem.gov.uk](mailto:RIIOED2@ofgem.gov.uk)

27 March 2026

Dear John

### **Statutory consultation: RIIO-ED2 Load Related Expenditure volume drivers**

Thank you for the opportunity to respond to the consultation dated 27 February 2026. This response is submitted on behalf of UK Power Networks' three electricity distribution licence holders: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

UK Power Networks is supportive of Ofgem's minded-to position under Option 3, which uses actuals from Years 1 and 2 to replicate the RIIO-ED2 benchmarking approach. However, Ofgem has omitted a step in the process, resulting in erroneous values being proposed for our three DNOs. This missing step must be undertaken when issuing your decision for UK Power Networks to be in a position to accept the outcome. We have set out in the Appendix to our response the necessary step and resultant licence values.

In addition, we remain disappointed that the revised unit costs have not been applied to Year 3 of the RIIO-ED2 price control. The ENA and DNOs engaged with Ofgem well in advance of the formal review, raising concerns as early as June 2025 that the allowed LVSVD unit costs were set too low to enable the recovery of efficiently incurred costs. These concerns included identified errors in the original derivation of unit costs.

While paragraph 5.6 of the Load Related Expenditure Volume Drivers Governance Document states that changes are forward looking, we consider that the application of revised unit costs from Year 3 is fully compatible with this provision. Year 3 volumes have not yet been finalised or reported formally to Ofgem. Changes to the original review timetable should not preclude the application of corrected unit costs from Year 3 onwards.

Notwithstanding this difference of opinion, we remain supportive of enacting the proposed changes to the allowed unit costs for Years 4 and 5 as a minimum.

We trust that this response is helpful. Should you have any questions or require further clarification, please do not hesitate to contact me.



**INVESTORS IN PEOPLE**  
We invest in people Platinum



Yours sincerely

A handwritten signature in black ink, appearing to read 'Suleman Alli', with a stylized, cursive script.

**Suleman Alli**

Director of Customer Service, Strategy, Regulation and Technology, UK Power Networks

Copy: Kieran Coughlan, Director of Asset Management, UK Power Networks  
James Hope, Head of Regulation and Regulatory Finance, UK Power Networks  
Jessica Melville, Regulatory Finance Manager, UK Power Networks

## Appendix

### Low Voltage Services Volume Driver

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

***UK Power Networks agree with using Option 3 for the calculation of the LVSVD unit rates. We were disappointed that Option 4 was not assessed and observe that Option 2 is driven by inconsistencies found in one company's reporting during the November 2025 RFI.***

#### **Option 3:**

UK Power Networks agrees with the selection of Option 3, which derives median unit costs based on Distribution Network Operators' (DNOs) Years 1–2 submitted actual costs. This approach is better aligned with the objective of reflecting the costs actually incurred by DNOs in delivering LVSVD-related work.

Whilst we support the principle of Option 3, we consider that the methodology used to calculate the revised unit costs under this option has omitted a further step, resulting in erroneous values being proposed for our three DNOs. Our detailed concerns with the methodology are set out in our response to Question 2.

#### **Option 4:**

UK Power Networks is also concerned that Option 4 has been discounted on the basis of what we understand to be an incorrect statement. Ofgem states that:

"We do not present forecast-based unit costs (Option 4) as we do not support this option. Not all DNOs provided forecast data in response to the RFI, meaning a robust benchmark cannot be derived."

Our understanding is that this statement is incorrect. At a joint industry meeting following publication of Ofgem's consultation, all DNOs reaffirmed that they had submitted forecast data to Ofgem in response to the RFI. We understand that each DNO received acknowledgement of submission from Ofgem, and this was further evidenced through subsequent LVSVD working group discussions and the Supplementary Questions process. We are not aware of Ofgem raising at any point during these engagements concerns with any DNO regarding non-submission of forecast data in response to the RFI.

We are mindful of the time that has elapsed since DNOs first raised the issue of the unit costs associated with the LVSVD activities. As such, whilst we would have welcomed seeing Option 4 being fully evaluated, we would prefer to resolve the review as soon as possible and have certainty of the allowed unit costs for the remainder of the period.

If Ofgem are able to undertake a swift review of the data to calculate the values under Option 4, with these then being consulted on for implementation for Years 4 and 5 as a minimum, we would be supportive. However, if Ofgem cannot undertake such analysis in a short timeframe and/or such a review would jeopardise application to Years 4 and 5, then we would not be supportive.

#### **Option 2:**

UK Power Networks does not agree with Ofgem's proposal to adopt a hybrid approach whereby Option 2 is applied to the overhead line (OHL) unit cost and Option 3 is applied to the underground (UG) unit cost. This approach has been proposed following inconsistencies identified in one company's reporting during the November 2025 RFI. Option 2 would address errors in the original RIIO-ED2 benchmarking process, but it would not reflect the actual costs incurred by DNOs in Years 1 and 2 of RIIO-ED2, as Option 3 seeks to do. It would therefore be disproportionate to underfund all DNOs as a consequence of misreporting by a single DNO group.

All DNOs are required to comply with Ofgem's Data Assurance Guidelines (DAG), which mandate an agreed level of review, including external assurance. UK Power Networks fully complies with the DAG requirements and does not consider that the proposed hybrid approach is necessary or justified.

As per Ofgem's request, subsequently discussed at the LVSVD workshop on 10 March 2026, we have reviewed our reported data for Years 1 and 2 and the current data for Year 3 and can confirm that we have not identified any specific outliers that are materially influencing our reported unit costs. As such, the UK Power Networks data upon which you are relying upon to generate your proposed efficient industry unit costs is appropriate.

### **Option 1:**

UK Power Networks does not agree with Option 1 to maintain the current licence unit rates.

This option does not address known inconsistencies in unit cost benchmarking and volume assumptions under RIIO-ED2 benchmarking, nor does it utilise the revealed data from undertaking and reporting on these activities – information which was in short supply at the time of DNOs making Business Plan submissions for the RIIO-ED2 price control. Subsequent to making those submissions it has become evident that there are additional works required as 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. Details of various examples of these instances formed part of the original DNO engagement with Ofgem, which aided Ofgem in deciding to initiate this review. Failing to act on this information would call into question the whole purpose of this review.

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

***UK Power Networks do not agree with Ofgem's proposed unit rates.***

We consider that the methodology used to calculate the "efficient view" of the proposed LVSVD unit rates is correct. However, a key step in the process has been omitted, resulting in erroneous values being proposed for our three DNOs. This missing step must be undertaken when issuing your decision for us to be in a position to accept the outcome.

As per our response to the RFI (page 3) we advised that the regional adjustments applied to the original disagg output from the RIIO-ED2 unit cost benchmarking, which gave rise to the values in the licence, had to be replicated and applied to the corrected benchmarking unit costs derived in your review.

Under the RIIO-ED2 Final Determination, the benchmarking methodology first normalised licensee unit costs prior to the calculation of a median unit cost. Where applicable, a regional adjustment was then applied to the median unit cost for relevant licensees.

By contrast, in CEPA's analysis, and as reflected in Ofgem's minded-to position under Option 3, the Years 1–2 actuals have not been normalised prior to the calculation of median unit costs, nor has any regional adjustment been applied. This departure from the RIIO-ED2 Final Determination methodology has resulted in outcomes that are inconsistent with the original benchmarking approach – and is clearly detrimental to all three of our DNOs. Licensees that did not receive a regional adjustment in the Final Determination now receive a proportionately greater uplift in unit costs than those that did. Table 1 below illustrates this effect.

Ofgem's consultation proposes that those DNOs in red receive a smaller uplift than those in green.

At this stage of the process, we believe the simplest solution to this error is for Ofgem to uplift the licence values of all DNOs by the same percentage value for the two activities in question i.e. a consistent 316% uplift to the OHL licence values and a consistent 65% uplift to the current licence values for UG. We set out these corrected values in Table 2 below.

**Table 1: Errors in the proposed application of unit cost uplifts**

	Ofgem View					
	% of Movement From Licence to Revised Unit Cost (2020/21 Prices)					
	LV Service (OHL)			LV Service (UG)		
	Licence Unit Cost	Option 3 Unit Cost	Uplift From Licence	Licence Unit Cost	Option 3 Unit Cost	Uplift From Licence
	£k	£k	%	£k	£k	%
ENWL	0.35	1.44	316%	1.60	2.65	65%
NPgN	0.35	1.44	316%	1.60	2.65	65%
NPgY	0.35	1.44	316%	1.60	2.65	65%
WMID	0.35	1.44	316%	1.60	2.65	65%
EMID	0.35	1.44	316%	1.60	2.65	65%
SWALES	0.35	1.44	316%	1.60	2.65	65%
SWEST	0.35	1.44	316%	1.60	2.65	65%
LPN	0.45	1.44	220%	2.08	2.65	27%
SPN	0.37	1.44	287%	1.73	2.65	54%
EPN	0.36	1.44	299%	1.67	2.65	58%
SPD	0.35	1.44	316%	1.60	2.65	65%
SPMW	0.36	1.44	295%	1.69	2.65	57%
SSEH	0.35	1.44	316%	1.60	2.65	65%
SSES	0.37	1.44	290%	1.71	2.65	55%

**Table 2: Corrected unit costs under Option 3 for inclusion in the licence**

	UKPN View					
	% of Movement From Licence to Corrected Revised Unit Cost (2020/21 Prices)					
	LV Service (OHL)			LV Service (UG)		
	Licence Unit Cost	Corrected Option 3 Unit Cost	Uplift From Licence	Licence Unit Cost	Corrected Option 3 Unit Cost	Uplift From Licence
	£k	£k	%	£k	£k	%
ENWL	0.35	1.44	316%	1.60	2.65	65%
NPgN	0.35	1.44	316%	1.60	2.65	65%
NPgY	0.35	1.44	316%	1.60	2.65	65%
WMID	0.35	1.44	316%	1.60	2.65	65%
EMID	0.35	1.44	316%	1.60	2.65	65%
SWALES	0.35	1.44	316%	1.60	2.65	65%
SWEST	0.35	1.44	316%	1.60	2.65	65%
LPN	0.45	1.87	316%	2.08	3.44	65%
SPN	0.37	1.55	316%	1.73	2.85	65%
EPN	0.36	1.50	316%	1.67	2.77	65%
SPD	0.35	1.44	316%	1.60	2.65	65%
SPMW	0.36	1.52	316%	1.69	2.79	65%
SSEH	0.35	1.44	316%	1.60	2.65	65%
SSES	0.37	1.54	316%	1.71	2.83	65%

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

***UK Power Networks agree with Ofgem's proposed recalculation of the LVSDV ex ante allowance.***

UK Power Networks agree with Ofgem's proposed recalculation of ex ante allowances and the rationale for doing so. Based on the existing levels of expenditure and the proposed revisions to unit costs, there is a likelihood of DNOs exceeding the current ex ante allowances.

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

We note the rationale put forward by Ofgem for the proposed changes to the LVSVD metric (metric 6), of increasing the threshold to 40% from 20% as this will remove the risk that standalone programmes could be unfairly penalised under the current metric design. Whilst we do not currently undertake specific standalone programmes, we do not object to the proposed change.

#### **Secondary Reinforcement Volume Driver**

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

***UK Power Networks agree with Ofgem's proposed changes to the SRVD metric.***

UK Power Networks has reviewed Ofgem's proposed changes to the SRVD metrics and is supportive of metrics 1–5 being applied based on a RII0-ED2 holistic view as opposed to on an annual basis. We agree with increasing the tolerance band from 10% to 25% and introducing an extension to the high utilisation threshold to a five-year view rather one year view for metrics 1, 2 and 3. These changes help DNOs to support strategic pathways including Clean Power 2030 and achieving Net Zero by 2050. We also support Ofgem recognising how flexibility services are used in managing secondary network constraints and welcome the utilisation threshold reducing in metric 5 from 100% to 90% and the application of a 25% tolerance band.

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

***UK Power Networks agree with Ofgem's SRVD Cap change for SP ENW.***

UK Power Networks agree with Ofgem's decision to only change the SRVD Cap for SP ENW to ensure consistency with the separate Load Related Reopener Determination. We welcome Ofgem's acknowledgement that should the need arise, DNOs can submit further evidence to support an increase to their own SRVD allowance caps.