Review of Unit Costs for LV Service Volume Drivers

Ofgem

May 2026

FINAL REPORT

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EXECUTIVE SUMMARY

For ED2, Ofgem introduced a set of Load-Related Expenditure (LRE) uncertainty mechanisms to allow distribution network operator (DNO) funding to adjust as demand for low-carbon technologies (e.g. EVs and heat pumps) evolves. The Low Voltage Services Volume Driver (LVSVD) is one of these mechanisms and is intended to fund specified LV service reinforcement activities, particularly unlooping of LV service connections.

The LVSVD provides funding through:

- an ex-ante allowance set at the ED2 determination stage (a combination of the disaggregated benchmarking component (unit rate × forecast volumes) and the totex benchmarking component); and
- an in-period reconciliation that adjusts allowed revenue in line with actual volumes delivered (unit rate × outturn volumes).

Ofgem consulted in February 2026 on proposed changes to the ED2 LRE volume drivers, including an upward revision to LVSVD unit rates and a higher LVSVD ex-ante allowance for all DNOs. Our February 2026 report was appended to that consultation.

This report updates our analysis following DNO consultation responses, further engagement with Ofgem and DNOs, and updated modelling to support Ofgem's final decision. Our review remains focused on two LVSVD service activities: overhead line (OHL) and underground cable (UG) additions.

We recommend that Ofgem updates LVSVD unit rates for OHL and UG using ED2 Years 1–2 outturn costs and volumes. This remains our preferred approach following consultation because it best balances cost reflectivity, delivery incentives, evidence quality and proportionality.

Following our review of responses to Ofgem's consultation, we have refined our analysis. The main updates are:

- Applying relevant CV2 sub-model cost normalisations before deriving the industry median benchmark.
- Applying licence-specific regional uplifts after benchmarking, consistent with the ED2 Final Determinations (FD) approach.
- Restating the LVSVD ex-ante allowance using implied volumes at FD, consistent with its role as a threshold within the volume driver framework.
- Updating Northern Powergrid (NPg) ex-ante allowance values and implied FD volumes to levels redetermined by Ofgem following the ED2 CMA appeal process.
- Presenting the full LVSVD allowance, including cut-outs and fuses for completeness. However, their unit rates are unchanged and have not been assessed in this report.

The updated industry median benchmark from our recommended approach is £1.44k for OHL and £2.65k for UG, before applying any licence-specific regional uplifts. The resulting licence-specific unit rates with uplifts applied are shown in Table 1.1.

Table 1.1: Proposed updated OHL and UG unit rates (£k, 2020/21 prices)

Company	OHL unit rate (£k)	UG unit rate (£k)
ENWL	1.44	2.65
NPGN	1.44	2.65
NPGY	1.44	2.65
WMID	1.44	2.65
EMID	1.44	2.65
SWALES	1.44	2.65
SWEST	1.44	2.65
LPN	1.87	3.44
SPN	1.55	2.85
EPN	1.50	2.76
SPD	1.44	2.65
SPMW	1.52	2.79
SSEH	1.44	2.65
SSES	1.54	2.83

Table 1.2 shows the restated LVSVD ex-ante allowance after updating the OHL and UG unit rates. The calculation uses FD implied volumes, which represent the level of activity each licensee was notionally funded to deliver under the FD unit rates. For modelling purposes, we assume the current licence rates apply in Years 1–3 and the proposed updated rates from Table 1.1 apply in Years 4–5. The timing of implementation is not within the scope of our assessment.

Under the LVSVD, DNO allowed expenditure is calculated by multiplying delivered volumes by the relevant unit rate. Separately, the 'ex-ante allowance' value acts as a threshold for greater scrutiny on that allowed expenditure i.e., DNOs can spend up to their ex-ante allowance without further scrutiny. Once a DNO's allowed expenditure exceeds the ex-ante allowance value, it must pass the LVSVD delivery metric. If it does not, Ofgem can seek further evidence and may withhold allowances above the ex-ante allowance value for activity that is outside tolerance or not evidenced as efficient. Table 1.2 is therefore not a forecast of actual allowed expenditure. Actual allowed expenditure will depend on outturn volumes across ED2 and any Ofgem assessment above the ex-ante allowance threshold.

Table 1.2: Restated LVSVD ex-ante allowance under updated OHL and UG unit rates (£m, 2020/21 prices)

Company	FD ex-ante allowance (£m)	Restated ex-ante allowance (£m)
ENWL	21.18	26.33
NPGN	18.59	24.80
NPGY	31.42	42.04
WMID	18.64	23.48
EMID	20.94	26.52
SWALES	6.55	8.59
SWEST	9.25	11.97
LPN	5.13	6.36
SPN	8.42	11.48
EPN	9.50	13.13
SPD	42.95	54.33
SPMW	24.67	31.10
SSEH	6.55	7.67
SSES	9.99	12.13
Total	**233.79**	**299.92**

Note: Highlighted values show the restated LVSVD ex-ante allowance under the updated OHL and UG unit rates. The calculation uses FD implied volumes.

1. CONTEXT AND BACKGROUND

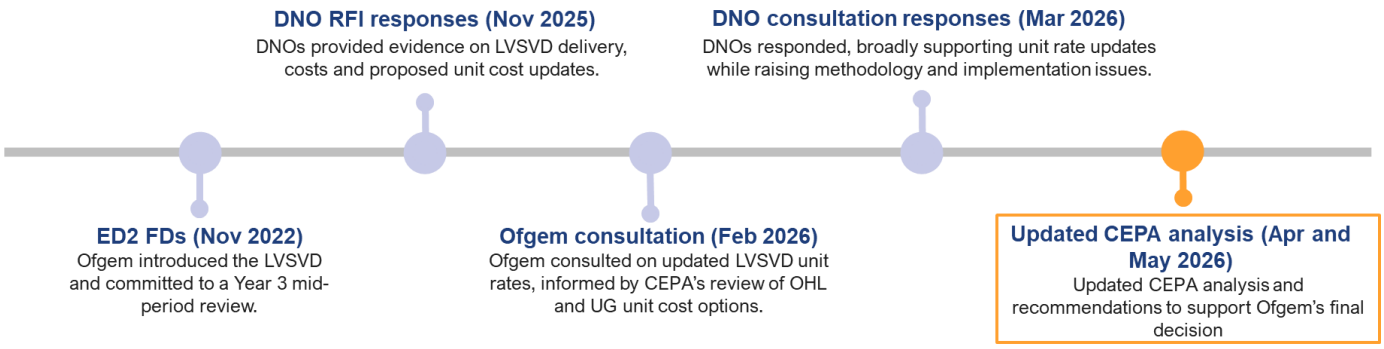
In February 2026, Ofgem consulted on proposed changes to the ED2 Load Related Expenditure (LRE) volume drivers. The consultation proposed, among other changes, an upward revision to Low Voltage Services Volume Driver (LVSVD) unit rates and a higher LVSVD ex-ante allowance for all distribution network operators (DNOs). This report updates our February 2026 consultation-stage report and informs Ofgem's final decision on the LVSVD unit-rate update.

Ofgem commissioned CEPA to support the LVSVD element of the review by assessing methodologies for updating overhead line (OHL) and underground cable (UG) unit rates for the remainder of ED2. The consultation position was informed by CEPA's draft report and evidence submitted by DNOs in response to Ofgem's November 2025 RFI.

This report updates the draft report appended to Ofgem's consultation, reflecting DNO consultation responses received in March 2026, further engagement with Ofgem and DNOs, and CEPA's updated analysis to support Ofgem's final decision.

Figure 1.1 below summarises the key stages of the review process.

Figure 1.1: Timeline of the LVSVD unit cost review



Source: CEPA analysis

1.1. POST-CONSULTATION UPDATE

Following consultation, we reviewed DNO consultation responses, additional RFI material, and subsequent Ofgem and DNO engagement. DNOs broadly supported updating OHL and UG LVSVD unit rates. They also raised points on forecast evidence, regional adjustments, NPg post-CMA allowance values, presentation of the full LVSVD allowance and implementation timing.

These points have led to modelling and presentation updates in our analysis. However, they have not changed our core recommendation. We continue to recommend updating OHL and UG unit rates using ED2 Years 1–2 outturn costs and volumes.

We have made five main updates to our analysis:

- First, we have applied relevant CV2 sub-model cost normalisations before deriving the industry median benchmark. These are pre-benchmark normalisations to improve cost comparability.
- Second, we have applied licence-specific regional uplifts after calculating the benchmark, consistent with the ED2 Final Determinations (FD) approach. This preserves an industry median benchmark while producing licence-specific unit rates where regional uplifts apply.
- Third, we restate the LVSVD ex-ante allowance using implied volumes at FD, consistent with its role as a threshold within the volume driver framework.

- Fourth, we update Northern Powergrid (NPg) ex-ante allowance values and implied FD volumes to levels set after the CMA appeal process.
- Fifth, we present the impact on the full LVSVD allowance, including cut-outs and fuses. The unit-rate review remains focused on OHL and UG. Cut-out and fuse unit rates are unchanged.

1.2. ED2 Final Determinations: LVSVD design and unit-rate methodology

For ED2, Ofgem introduced a set of LRE uncertainty mechanisms to allow DNO funding to adjust as demand for low-carbon technologies (e.g. EVs and heat pumps) evolves. The LVSVD is one of these mechanisms and is intended to fund specified LV service reinforcement activities, particularly unlooping of LV service connections.

The LVSVD provides funding through:

- an ex-ante allowance set at the ED2 determination stage (a combination of the disaggregated benchmarking component (unit rate × forecast volumes) and the totex benchmarking component); and
- an in-period reconciliation that adjusts allowed revenue in line with actual volumes delivered (unit rate × outturn volumes).

Where the funding from this reconciliation materially exceeds the ex-ante allowance, Ofgem may review delivery (using volume driver metrics) and may disallow volumes it considers inefficient. The reconciliation mechanism is also subject to an overall cap that limits the expenditure that can be recovered under the LVSVD volume driver for each licensee throughout the whole ED2 period.[1,2] This cap is set on an aggregate basis rather than for individual service activities.

The LVSVD covers four categories of service activity: (1) OHL, (2) UG, (3) Cut-outs, and (4) Fuse upgrades. For ED2, Ofgem set unit rates for each service activity under the LVSVD using an industry benchmark approach. For LV services, Ofgem combined proactive and reactive[3] forecast costs and volumes from ED2 business plans, to derive a common set of ED2 industry median unit costs for each LV service asset category. These were then applied as unit rates for each activity in the LVSVD.

This review addresses the OHL and UG unit rates only. For completeness, cut-outs and fuses are included in the total LVSVD allowances that we present, but their unit rates are unchanged and are not reassessed in this report.

When setting the LVSVD unit rates during ED2 FDs, achieving like-for-like comparability of business plan data for OHL and UG across DNOs was a key challenge. To address this, Ofgem applied a volume adjustment for a subset of DNOs that sought to place the unit cost evidence on a more consistent basis,[4] as described in Box 1.

[1] Ofgem (2023) LRE Volume Drivers Governance Document.

[2] The LVSVD cap is the sum of the DNO ex-ante submitted costs, and costs subject to the uncertainty mechanism. The cap for ED2 is £680.4m, compared to the LVSVD FDs set allowance of £259.9m.

[3] Reactive service reinforcement is prompted by customers, generally for LCT installation, whereas proactive reinforcement is initiated by the DNO. Ofgem (2025) ED3 Sector Specific Methodology Consultation.

[4] Ofgem (2022) RIIO-ED2 Final Determinations Core Methodology, paragraph 7.198.

Box 1: Ofgem's rationale for the volume adjustment

Ofgem judged that LV Services business plan data (OHL and UG) was not directly comparable across DNOs because licence areas assumed different relationships between an LV service addition and the outcome of this activity (the number of properties unlooped). Forecasts from some DNO groups (ENWL and NGED) implied one addition could unloop two properties (a 1:2 relationship), while forecasts from other DNO groups (SPEN, SSEN, UKPN, ENWL) assumed one addition per property unlooped (a 1:1 relationship).

These different assumptions make unit costs expressed as '£ per addition' less comparable across the DNOs, because an addition is not the same-sized unit of work in each case. A DNO assuming 1:2 could unloop the same number of properties with around half the number of additions. This mechanically increases its '£ per addition' even if its underlying cost per property unlooped is similar.

To standardise the denominator for benchmarking, Ofgem doubled the LV Service volumes for ENWL and NGED DNO groups (i.e., five DNOs). Ofgem's intention was that, by placing all DNOs on a consistent 1:1 basis for the unit-cost derivation, the £/LV Service unit costs would be comparable across DNOs.

In the ED2 FDs,[5] Ofgem committed to a mid-period review of the LVSVD at Year 3 of ED2. At ED2 there was limited historical data available to underpin the forecasts used to set these unit rates, and Ofgem highlighted some uncertainty as to the level of future volumes. The review is intended to assess whether the mechanism's parameters, including the unit cost rates and the cap, remain appropriate and are operating effectively. In particular, it seeks to ensure unit rates are set at the right level to support efficient delivery, while avoiding perverse outcomes, e.g. where justified investment is discouraged, or where inefficient investment is inadvertently rewarded.

1.3. Emerging evidence and issues during ED2

Our review is informed by DNO responses to Ofgem's November 2025 RFI, summarised unit cost data across all fourteen DNOs, DNO responses to Ofgem's February 2026 consultation, and subsequent engagement with Ofgem and DNOs.

In the November 2025 RFI responses, DNOs raised concerns about the suitability of the unit rates for OHL and UG in light of outturn cost information. Therefore, the scope of Ofgem's review, and of this report, is focused on OHL and UG only, and does not consider cut-outs or fuse upgrades. Across these RFI submissions, the narrative is consistent that the current ED2 unit rates result in material under-recovery of costs under the LVSVD. The shortfall is reported to be most pronounced for LV underground (UG) service installations, reflecting the relatively high volumes of this activity. Analysis by the Energy Networks Association[6] (ENA) in response to the RFI indicates that, across all DNOs, LV service works in Years 1-2 incurred £104.1m of expenditure, while only £77.3m has been recovered through the LVSVD (i.e. approximately 74% of outturn costs have been funded). This implies under-recovery of around £26.8m, with the majority (85%) of under-recovery attributable to UG.

The DNOs argue that this under-recovery is driven by:

1. **Methodological issues:** Ofgem applied a volume adjustment to standardise the ED2 benchmarking dataset onto a common, per-property basis. This adjustment reduced the implied unit costs for ENWL and NGED, and therefore lowered the industry benchmark (median unit cost) used to set allowed rates (see Box 1).
    - The LVSVD pays £ per service addition, but the volume adjustment effectively calibrates the benchmark on a £ per property unlooped basis. This creates an inconsistency, meaning the adjusted unit rate may be systematically non-cost-reflective when applied on a per-addition basis.
    - Even on a per-property basis, costs may not scale proportionately with the number of properties unlooped. For example, LV service jobs include fixed, per-intervention elements (e.g. traffic management,

[5] Ofgem (2022) RIIO-ED2 Final Determinations Core Methodology, paragraphs 3.37 and 3.59. Also see Ofgem (2022) RIIO-ED2 Draft Determinations Core Methodology, paragraph 3.73.

[6] Referenced in Ofgem's presentation: Load Related Expenditure Volume Drivers Review, 15th December 2025.

mobilisation, site set-up), which do not increase linearly with the number of properties unlooped. An intervention which unloops two properties will not necessarily cost twice as much as an intervention which unloops one property. On this basis, halving ENWL and NGED's implied unit costs (by a simple 'doubling' of their volumes) may have reduced their unit costs by more than is justified.

2. **Unforeseen additional works in carrying out unlooping:** Across the RFI responses, there is a consistent narrative that ED2 delivery has highlighted non-optional additional works, which materially increase the cost of delivering LV service upgrades. For example, challenging service locations and meter positions, buried services, concrete driveways, etc. DNOs argue these drivers were not adequately captured in the evidence base available at ED2 FDs, and therefore are not reflected in the current allowed unit rates. More generally, unlooping is a relatively new activity, and there was limited historical evidence at FDs on which to calibrate forecasts.

As outturn LVSVD funding is determined by applying unit rates to outturn volumes, there is a risk that, if unit rates are materially below efficient delivery costs, DNOs may reduce or defer delivery volumes. This may be most marked for proactive programmes, as those are the volumes over which DNOs have greater discretion or control.[7] This could undermine timely network readiness for electrification of heat and transport (e.g. EV charging and heat pumps).

Delivery to date in ED2 appears to have been more reactive than Ofgem expected. This matters because proactive programmes can typically be planned and standardised and are therefore often lower cost than reactive interventions. Across all LV services, the FD allowance for Years 1–2 implied that around 63% of delivery would be proactive. For the OHL and UG activities reviewed here, ED2 Years 1–2 outturn volumes were more reactive, with around 20% of OHL volumes and 54% of UG volumes delivered proactively.

Consultation responses broadly supported updating the OHL and UG unit rates, while raising further points on forecast evidence, regional adjustments, post-CMA allowance values, the presentation of the full LVSVD allowance, and implementation timing.

The methodologies we assess are intended to address the issues identified to date, improving cost reflectivity and strengthening delivery incentives.

1.4. ED3 CONTEXT AND IMPLICATIONS

Looking ahead to ED3, Ofgem is consulting on a more proactive, plan-led approach to distribution investment. A greater share of funding is expected to be provided upfront through baseline allowances set at the start of the price control, with less reliance on multiple, in-period funding adjustments. Ofgem is also consulting on a more selective use of reopeners (mechanisms that adjust allowances during the period) and reducing their number, while retaining the ability to respond where new needs emerge.[8]

In this context, Ofgem has indicated that the funding arrangements for the LRE Secondary Reinforcement and LVSVD may change in ED3.[9] Ofgem has noted that, although ED2 included mechanisms such as the secondary reinforcement volume driver, most reinforcement allowances are not linked to specific output or volume measures. Therefore, Ofgem considers that stronger delivery accountability is needed in ED3 to reduce the risk of under-delivery or deferral. Taken together, this suggests volume drivers may play a more targeted role within a broader ED3 framework that is funded upfront, monitored through stronger delivery assurance, and supported by a range of adaptability mechanisms where circumstances change.

[7] Whilst reactive interventions are typically more expensive than proactive interventions, companies have less control over these volumes because, where reactive LV services are triggered by a customer request, DNOs are generally obliged to progress the request, subject to standard conditions.

[8] ED3 Framework Decision, para 3.28; ED3 Sector Specific Methodology Consultation, para 9.17

[9] ED3 Sector Specific Methodology Consultation, para 7.24

In view of this direction of travel, Ofgem has advised us that the ED2 mid-period update should:

- be proportionate and targeted;
- improve cost reflectivity and delivery incentives;
- use the best available evidence; and
- maintain a clear audit trail so the analysis can inform ED3 design and future data expectations.

2. OPTIONS APPRAISAL

In light of the emerging evidence and issues set out in Section 1, Ofgem has commissioned CEPA to assess options for updating the LVSVD unit rates for OHL and UG on a forward-looking basis. This section sets out our assessment criteria, shortlisted and discounted options, and our full assessment of the shortlisted options.

2.1. ASSESSMENT CRITERIA

Our assessment criteria are as follows:

1. **Methodological coherence:** Are unit rates calibrated on the same basis as they are applied in the mechanism, i.e., do they reflect efficient costs on a £ per service addition basis (the unit on which the LVSVD pays)?
2. **Cost reflectivity and incentives for cost efficiency:** Do the unit rates reflect efficient delivery costs likely to be incurred, while providing appropriate efficiency pressure (i.e., stretching but achievable)?
3. **Delivery incentives and volume efficiency:** Does the approach encourage delivery of the right activities and volumes (including proactive work), avoiding systematic under-delivery and/or inefficient over-delivery?
4. **Evidence quality and proportionality:** Is the approach evidence-based and replicable using available data, transparent to stakeholders, and proportionate to implement?

These criteria reflect Ofgem's objectives for the unit cost drivers at the ED2 FD stage, ensure consistency with Ofgem's ED3 documentation to date, and facilitate differentiation between the options.

2.2. DESCRIPTION OF OPTIONS

2.2.1. Shortlisted options

We agreed with Ofgem to assess four shortlisted options:

Option	Description
(1) Use current unit rates	Maintain the existing ED2 unit rates for OHL and UG services (i.e. no recalculation or updates).
(2) Use rates based on updated methodology, applied to costs in ED2 business plan	Apply the ED2 methodology on a consistent per-addition basis, by removing the volume-doubling treatment for ENWL and NGED (which was applied by Ofgem at ED2).
(3) Use rates based on updated methodology and ED2 outturn data	As in Option 2, remove the ENWL/NGED volume-doubling treatment; **plus** update unit rates based on ED2 Years 1-2 outturn costs and volumes, as reported by DNOs in the 2025 RRPs,[10] with costs normalised using CV2 sub-model normalisations before deriving the industry median benchmark.
(4) Use DNO forecast rates	As in Option 2, remove the ENWL/NGED volume-doubling treatment; **plus** update unit rates based on DNOs' forecast unit cost data for those years, where available.

Each option is deliberately simple and distinct. In principle, hybrid approaches could also be considered, e.g., triangulating between Option 2 (ED2 forecast-based evidence with an updated methodology) and Option 3 (outturn-

[10] This includes making further cost and volume adjustments for NGED. NGED's OHL unit costs for EMID, SWALES and SWEST in its outturn submission dated 19 November 2025 were materially higher than those reported by other DNOs and were treated as outliers. Following an Ofgem information request, NGED confirmed this issue and, in its response dated 14 January 2026, explained that a project cost review identified that some unlooping project work had been reported against LV Service (OHL) reinforcement but should instead have been reported against other activities in table CV2. We have implemented the cost and volume reallocations described by NGED in that response; as a result, the recalculated unit costs and the industry median benchmark used under Option 3 (ED2 outturn-based rate) differ from those implied by the November 2025 submission.

based evidence), recognising that each data source has different strengths and weaknesses. However, for this assessment we have prioritised a simple, transparent comparison, consistent with discussions with Ofgem.

2.2.2. Discounted options

Ofgem's focus for this mid-period review is on proportionate changes required to update the LVSVD unit rates on a forward looking basis. Therefore, this section summarises the main options raised by DNOs that fall outside of the scope set by Ofgem for this unit rate update, which is why we do not take them forward for full assessment.

Company-specific unit rates (rather than an industry benchmark/median). Some DNOs have suggested using company-specific unit rates instead of a common benchmark. The rationale for this is that the resulting unit rates would better reflect company-specific delivery approaches. However, moving to company-specific rates would represent a material change to the mechanism design, moving away from ED2's use of an industry median benchmark to provide a common basis for funding and efficiency incentives.[11]

Separate unit rates for different types of activity (e.g. proactive versus reactive). To ensure consistency with Ofgem's ED2 methodology, we do not consider separate unit rates for proactive and reactive work.[12]

Separate unit rates for different engineering solutions. DNOs have suggested disaggregating unit rates to reflect differences in the nature of the work delivered (for example, where 3-phase services are not directly comparable to standard services). To ensure consistency with Ofgem's ED2 methodology, we do not consider this option. It would also require additional (more granular) data to reliably set unit rates in this way.

2.3. Assessment of shortlisted options

Each option is assessed below against the criteria set out in Section 2.1. Our assessment is illustrated using a RAG-rating: A red cross indicates the option is unlikely to meet the criterion; an amber triangle indicates it partially meets the criterion; and a green symbol indicates it is likely to meet the criterion.

2.3.1. Summary of assessment

The table below summarises our RAG assessment across the shortlisted options.

Table 2.1: Summary of assessment

Criteria	Option 1: Current rate	Option 2: Updated methodology rate	Option 3: ED2 outturn rate	Option 4: DNO forecast rate
Methodological coherence	✗	+	+	!
Cost reflectivity and incentives for cost efficiency	✗	!	!	!
Delivery incentives and volume efficiency	✗	!	+	!
Evidence quality and proportionality	!	!	!	✗

[11] Benchmarking to an industry median is a well-established feature of Ofgem price controls and has been applied in RIIO-ED2 to calibrate unit cost benchmarks across a number of activity categories. (See Ofgem RIIO-ED2 Final Determinations Core Methodology Document.) The RIIO-ED2 documentation contains limited LV-services-specific discussion of the rationale for the median benchmark, although it does not appear to have been a key point of debate in consultation.

[12] Ofgem RIIO-ED2 Draft Determinations Core Methodology Section 3.69.

Consistent with our consultation-stage report, we recommend taking forward Option 3. It corrects the methodological inconsistency in the FD calculation and uses the most recent available evidence on ED2 delivery costs. In our view, this provides the strongest basis for updating OHL and UG unit rates for the remainder of ED2.

Option 1 should not be taken forward because it retains the inconsistency between the basis on which unit costs were calculated and the basis on which the LVSVD pays. Option 2 corrects that inconsistency, but continues to rely on the original ED2 forecast cost evidence. Option 4 is not preferred because the Years 3–5 proposed unit costs submitted by DNOs do not provide a sufficiently consistent, evidenced or benchmarkable forecast dataset.

Option 3 also reduces the risk that unit rates set below efficient delivery cost discourage delivery, particularly proactive activity. The outturn-based evidence has limitations: ED2 Years 1–2 OHL volumes are low, and outturn costs may include one-off or atypical factors. These limitations should inform Ofgem's interpretation of the benchmark, but they do not outweigh the benefits of using recent outturn evidence for this targeted ED2 update.

The post-consultation modelling updates refine our calculation of licence-specific rates and restated allowances. They do not change the core recommendation to use the outturn-based approach. In particular, CV2 cost normalisations are applied before deriving the median benchmark, while licence-specific regional uplifts are applied after benchmarking to derive final unit rates.

Using FD implied volumes, Option 3 increases the restated ED2 ex-ante allowance by around £30m relative to Option 2, from £270m to £300m. Actual allowed expenditure under the volume driver will depend on outturn volumes during ED2.

2.3.2. Option 1: Maintain current rate

The simplest option is to maintain the current unit rates for OHL and UG. Our assessment of this option is set out in Table 2.2 below.

Table 2.2: Assessment of Option 1: Maintain current rate

Criteria	RAG	Rationale
Methodological coherence	✗	• Retains the existing unit rates, including the volume adjustment. The rate is effectively calculated on a property-unlooped basis while funding is applied on an additions basis.
Cost reflectivity and incentives for cost efficiency	✗	• Rates were set based on forecast data, without a substantial evidence base (such as a long time series of historical data). Early ED2 evidence suggests outturn unit costs are materially above the current rates. • A lower unit rate could, in principle, strengthen incentives for cost efficiency. However, if the unit rate is set materially below efficient costs it might become unrealistic and would be unlikely to incentivise companies effectively or drive genuine cost efficiency.
Delivery incentives and volume efficiency	✗	• High risk of under-delivery, particularly for proactive works, if the rate under-recovers actual costs incurred. • For both OHL and UG, current rates are below median DNO reported ED2 actual costs for proactive volumes.
Evidence quality and proportionality	⚠	• Proportionate and straightforward to implement. • Unit rates were based on DNO information submission in advance of ED2, but this option does not reflect the latest evidence.

Option 1 offers no benefits beyond stability and ease of implementation. It contains a methodological inconsistency which artificially reduces the unit rate. In addition, it utilises a dataset based on forecasts for ED2 – rather than having a substantial evidence base from historical data – which creates further risks to its cost reflectivity.

The key incentive risk is that, if the unit rate is materially below efficient cost, it is unlikely to provide an effective cost-efficiency incentive. It may instead create incentives to defer discretionary activity and prioritise unavoidable work, particularly where DNOs have greater control over the timing and scale of proactive delivery. This could weaken the role of the LVSVD in supporting timely network readiness for electrification.

2.3.3. Option 2: Use updated methodology rate

This option removes the volume adjustment applied by Ofgem to ENWL's and NGED's unit costs for OHL and UG services when setting the ED2 unit cost allowances. As a result, unit costs are calculated on a consistent per-addition basis across all companies, aligned with the basis of the unit rate on which DNOs are funded. Our assessment of this option is set out in Table 2.3 below.

Table 2.3: Assessment of Option 2: Use updated methodology rate

Criteria	RAG	Rationale
Methodological coherence	+	• Corrects for inconsistency in original unit rates. • Applies a consistent per-addition basis for OHL and UG.
Cost reflectivity and incentives for cost efficiency	⚠	• More cost reflective than Option 1 because it removes the volume-adjustment distortion. However, it does not leverage the most recent data from ED2 to date, so may not capture additional works now observed in ED2. • May incentivise cost efficiency.
Delivery incentives and volume efficiency	⚠	• Reduces the risk of under-delivery versus Option 1. • If the rate is still below efficient cost, incentives may still favour deferral of activity and lower volumes.
Evidence quality and proportionality	⚠	• Simple and proportionate to implement. • While ED2 unit cost allowances are based on the forecast volumes for ED2, this option does not reflect the latest available outturn evidence from ED2.

Option 2 is an improvement on maintaining current unit cost allowances (Option 1), as it corrects the identified methodological inconsistency and restores a consistent per-addition basis. For UG services, the updated methodology rate appears broadly in line with ED2 Years 1–2 outturn unit costs and, in principle, could encourage cost efficiency.

However, for OHL services the updated methodology unit rate remains materially below ED2 outturn unit costs (around three times lower). If that cost data is representative of underlying costs, it suggests that the rate (Option 2) is unlikely to be cost reflective and, in turn, creates an under-delivery risk. In particular, if the unit rate under-recovers efficient costs, DNOs may rationally prioritise only unavoidable delivery and defer discretionary activity, with the greatest risk falling on proactive works. This risk is consistent with observed ED2 delivery patterns, where several DNOs report limited or no proactive volumes.

2.3.4. Option 3: Use ED2 outturn rate

This option estimates unit costs using ED2 Years 1–2 outturn costs and volumes. Consistent with Option 2, it removes the ENWL / NGED volume-doubling treatment and therefore aligns the benchmark calculation with the per-addition basis on which the LVSVD pays. We also apply relevant CV2 sub-model cost normalisations before deriving the industry median benchmark. Our assessment of this option is set out in Table 2.4 below.

Table 2.4: Assessment of Option 3: Use ED2 outturn rate

Criteria	RAG	Rationale
Methodological coherence		• Resolves the inconsistency embedded in the original unit rate derivation. • Applies a consistent, per-addition basis across OHL and UG.
Cost reflectivity and incentives for cost efficiency		• Cost reflective of activity to date in ED2, as data is grounded in actual ED2 costs incurred by DNOs. • However, actual volumes in ED2 to date are not guaranteed to be fully representative of future volumes. For example, for OHL, the sample size is relatively small, due to low levels of activity to date (total ED2 spend of less than ~£1.5m across all DNOs). • May reduce cost efficiency pressure if outturns include inefficiency or atypical one-offs.
Delivery incentives and volume efficiency		• Reduces under-delivery risk: a higher unit rate reduces the incentive to defer LV services volumes, particularly proactive works.
Evidence quality and proportionality		• Simple and proportionate to implement, although requires quality assurance on data. • It is based on the most recent evidence, although estimated from two years of data with relatively low volumes (particularly for OHL).

Option 3 uses realised ED2 costs to calibrate the OHL and UG benchmarks. This makes the rates more directly reflective of recent delivery evidence and mitigates one of the principal risks identified in this review: that a lower unit rate may discourage delivery, particularly of proactive activity. The approach is also relatively practical to implement because it uses existing reported data.

The approach nevertheless depends on appropriate quality assurance of DNO cost submissions. For example, NGED's November 2025 RFI submission contained material OHL outliers that were subsequently clarified and corrected. We have reflected those corrections in the Option 3 benchmark dataset.

ED2 Years 1–2 outturn costs are more directly relevant to current ED2 delivery costs than the forecast data used at FD. However, they may not be fully representative of costs over the remainder of ED2. OHL volumes are relatively low, the proactive / reactive delivery mix differs from FD assumptions, and outturn data may include one-off or atypical costs. These limitations should inform Ofgem's interpretation of the benchmark, but they do not change our view that Option 3 provides the strongest overall basis for the ED2 update.

2.3.5. Option 4: Use DNO forecast rates

This option would update unit rates using updated forecast unit costs from DNOs. All DNOs provided "Years 3–5 proposed unit costs", but these submissions do not consistently represent forecasts of each licensee's expected future unit costs. Instead, the values reflect a mix of forecast-based proposals, outturn-based proposals and preferred benchmark rates. In some cases, DNOs also proposed approaches outside the scope of this review, such as company-specific rates or rates linked to specific engineering solutions. Box 2 summarises the approaches reflected in the DNO submissions.

Box 2: DNO forecast approaches

- **SSEN:** Proposes updated unit rates largely based on its Year 1–2 outturns. However, it argues against applying a simple industry median, noting that costs vary by licence area due to factors such as delivery maturity, geography and local markets.
- **UKPN:** Based its proposed unit costs on 2025/26 year-to-date internal reporting from April to October 2025, providing more recent evidence than Years 1–2 outturn data. However, forecast volumes were derived separately, with UKPN annualising Year 3 volumes and deriving Years 4–5 volumes by applying the difference between July PCFM volumes and annualised 2025/26 volumes.
- **SPEN:** For UG services, proposes that, where it delivers 3-phase as standard, unit rates should be calibrated to SPEN outturn costs. For other categories, SPEN references the industry median Year 1–2 outturn unit cost.
- **SP ENW:** Proposed using the industry median of actual Year 1–2 unit costs. This appears to be a proposed benchmark rate, rather than a forecast of SP ENW's own future unit costs.
- **NGED:** Proposed unit costs based on the industry median of actual Year 1–2 unit costs. This appears to be a proposed benchmark rate, rather than a forecast of NGED's own future unit costs.
- **NPg:** Proposed unit costs based on the recalculated median unit cost after correcting for the volume adjustment, equivalent to Option 2. This appears to be a proposed benchmark rate, rather than a forecast of NPg's own future unit costs.

Our assessment of this option is set out in Table 2.5 below.

Table 2.5: Assessment of Option 4: Use DNO forecast rates

Criteria	RAG	Rationale
Methodological coherence		• Removes the identified volume-adjustment inconsistency. • Forecasts are not prepared on a consistent basis across DNOs.
Cost reflectivity and incentives for cost efficiency		• Forecasts may incorporate company-specific forward-looking information, which may improve cost reflectivity. • Provides a limited cost-efficiency incentive, since DNOs may not propose stretching unit rates for themselves.
Delivery incentives and volume efficiency		• Less likely to discourage delivery, particularly regarding proactive volumes, compared to options with lower unit rates (e.g. Option 1). • There might be a risk of over-incentivising delivery if rates are too high.
Evidence quality and proportionality		• Forecast assumptions and derived unit costs under Option 4 are not evidenced in sufficient detail, or on a sufficiently consistent basis, to show that they are more appropriate than an outturn-based approach (Option 3) or to support a robust benchmark. Given this is a mid-period review, a full reconciliation of forecast methodologies and assumptions across DNOs would not be proportionate.

We recognise that DNOs are best placed to understand the costs and volumes they expect to incur in the remaining years of ED2. However, taken as a whole, the evidence provided does not demonstrate that the DNO-proposed Years 3–5 unit costs would deliver a more robust or cost-reflective benchmark than an outturn-based approach.

The main limitation is that the submissions are not prepared on a common forecast basis. They combine forecast-based proposals, outturn-based proposals and preferred benchmark rates, with different assumptions on scope,

engineering solution, volume mix and benchmarking approach. As a result, they do not provide a consistent dataset from which to derive an industry median benchmark.

A full reconciliation of forecast methodologies, scope and assumptions would be resource intensive for both Ofgem and the DNOs. Given the targeted nature of this ED2 mid-period update, requiring all DNOs to develop, evidence and align forecasts to a common standard would not be proportionate.

3. CONSIDERATIONS AHEAD OF ED3

If a similar volume-driver approach is retained in ED3, there are broader design questions that go beyond what is proportionate for an ED2 mid-period update. These questions are outside the scope of this review. However, we have collated them here in case they are of use to Ofgem in its wider thinking as it develops its proposals for ED3. Ofgem will need to decide how far the mechanism should seek to address heterogeneity and non-comparability across DNOs, and how to balance cost reflectivity against simplicity.

Optimising the volume driver to ensure DNOs are reimbursed for efficient costs. DNOs may be unlooping different numbers of properties 'per service addition', and if so, a unit cost based on service additions may under-reward some DNOs and over-reward others.[13] An alternative could be to set costs based on the number of properties unlooped – or even potentially a more complex 'hybrid' driver which takes into account both the number of interventions and the number of properties unlooped. However, costs may not increase linearly with the number of properties unlooped, due to the potential for fixed costs per intervention (e.g. mobilisation, traffic management, site set-up), so there are likely to be pros and cons to different drivers.

In advance of ED3, Ofgem could further investigate the relationship between the number of interventions, the number of properties unlooped (per intervention), and costs. If the unit-rate derivation is standardised on a per-property basis, then, conceptually, funding would also need to be tied to the same volume definition (e.g. properties unlooped rather than additions) to avoid the type of denominator mismatch observed in ED2.

Other sources of non-comparability. Beyond properties-unlooped assumptions, there are other factors that may drive systematic differences in reported unit costs across DNOs. These include differences in the mix of reactive versus proactive delivery (with reactive works typically higher-cost due to site-specific complexity), and differences in the nature of engineering solutions delivered (for example, where 3-phase service upgrades are not directly comparable to standard services, or where other "non-standard" solutions are deployed). For ED3, Ofgem could consider whether to account for these factors explicitly (e.g. through disaggregated reporting and separate unit rates) or to retain a simpler single-rate approach.

Benchmarking approach: industry median versus company-specific rates. A further strategic choice is whether unit rates should continue to be set using an industry benchmark (e.g. the median) or move towards more company-specific calibration. Median benchmarking provides a common funding basis and can strengthen comparative efficiency incentives, but may be less cost-reflective where legitimate cost differences are not captured in the unit definition. Conversely, company-specific rates can better reflect genuine differences in delivery context or outputs, but weaken comparative efficiency pressure and increase the risk that inefficient costs are funded and passed through to consumers. Ofgem's ED3 design will therefore need to balance several factors: the potential for standardisation and simplicity; the incentive strength it wants the mechanism to provide; data and assurance requirements needed to support a more granular approach; and ensuring proportionality by considering the materiality of financial impacts under different options.

[13] This provides the rationale for Ofgem's 'volume adjustment' (for deriving ED2 unit rates), as it was intended to improve comparability across DNOs where business plan forecasts implied different relationships between an LV service intervention ("addition") and the number of properties unlooped (e.g. 1:2 versus 1:1).

Appendix A. UNIT RATES AND ALLOWANCE IMPACTS

This appendix presents the unit-rate and allowance calculations supporting our recommendation. It first shows the licence-specific OHL and UG unit rates under Options 1, 2 and 3. It then explains the basis for restating the LVSVD ex-ante allowance using FD implied volumes, before presenting the resulting allowance impacts and volume-scenario sensitivities.

The unit-rate review covers OHL and UG only. The total LVSVD allowance presentation also includes cut-outs and fuses. Their unit rates are unchanged from the current licence values.

A.1. UNIT RATES UNDER DIFFERENT OPTIONS

This section presents the OHL and UG unit rates under Options 1, 2 and 3. It first shows how each option derives the industry median benchmark, then presents the resulting licence-specific rates after applying FD regional uplifts where applicable.

Option 1 reflects the current licence rates. Option 2 removes the ENWL / NGED volume-doubling treatment but continues to use the ED2 business plan cost evidence. Option 3 uses ED2 Years 1–2 outturn costs and volumes, with relevant CV2 sub-model cost normalisations applied before deriving the industry median benchmark.

Table A.1 and Table A.2 present the DNO-level unit costs and derived industry median benchmark unit costs for OHL and UG, respectively.

For Options 1–3, we calculate implied unit costs using Ofgem's disaggregated model, specifically the CV2 sub-model for LV service reinforcement. For Option 3, we estimate unit costs using ED2 Years 1–2 outturn costs and volumes and apply relevant CV2 sub-model cost normalisations before calculating the industry median benchmark. We do not present forecast-based unit costs for Option 4 because the forecast information made available for this review does not provide a sufficiently evidenced, standardised or benchmarkable dataset.

Table A.1: Comparison of OHL unit costs by option (£k, 2020/21 prices)

Company	(Option 1) Current UC	(Option 2) Updated methodology UC	(Option 3) ED2 outturn UC
ENWL	-	-	1.82
NPGN	-	-	-
NPGY	-	-	-
WMID	0.18	0.36	2.09
EMID	0.18	0.35	1.83*
SWALES	0.18	0.35	1.06*
SWEST	0.17	0.35	1.85*
LPN	-	-	-
SPN	0.52	0.52	1.01
EPN	0.51	0.51	1.04
SPD	-	-	2.72
SPMW	-	-	0.41
SSEH	0.52	0.52	-
SSES	0.52	0.52	0.68
Median	**0.35**	**0.44**	**1.44**

Note: Asterisked unit costs estimated using ED2 Years 1–2 actuals differ from the figures in the DNOs' RFI submission (19 November 2025) because NGED (EMID, SWALES, SWEST) subsequently provided clarification and revised inputs in relation to outlier values for their unit costs. We have reflected this by adjusting the relevant costs and volumes accordingly.

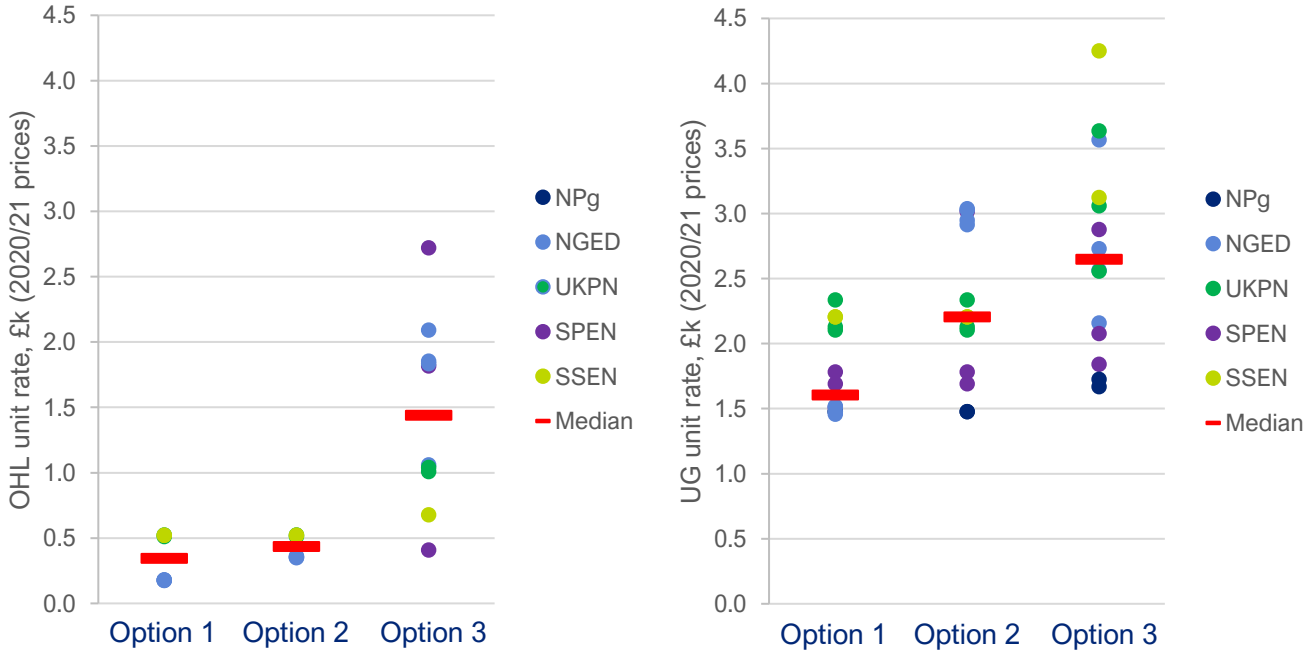
Note: Dashes indicate that the relevant DNO reported zero volumes for that activity in the underlying data, so a unit cost cannot be calculated. A dash for Option 1 or 2 indicates where a DNO previously forecasted zero volumes for ED2. A dash for Option 3 indicates where a DNO has not undertaken any volumes during ED2 Years 1–2 (to date).

Table A.2: Comparison of UG unit costs by option (£k, 2020/21 prices)

Company	(Option 1) Current UC	(Option 2) Updated methodology UC	(Option 3) ED2 outturn UC
ENWL	1.51	3.01	1.84
NPGN	1.48	1.48	1.67
NPGY	1.48	1.48	1.73
WMID	1.46	2.91	2.73
EMID	1.47	2.95	2.56*
SWALES	1.52	3.04	3.57*
SWEST	1.51	3.03	2.16*
LPN	2.13	2.13	2.56
SPN	2.10	2.10	3.07
EPN	2.34	2.34	3.64
SPD	1.78	1.78	2.88
SPMW	1.69	1.69	2.09
SSEH	2.21	2.21	4.25
SSES	2.21	2.21	3.12
Median	**1.60**	**2.21**	**2.65**

Note: Asterisked unit costs estimated using ED2 Years 1–2 actuals differ from the figures in the 19 November 2025 RFI submission because NGED (EMID, SWALES, SWEST) subsequently provided clarification and revised inputs in relation to outlier values for their unit costs. We have reflected this by adjusting the relevant costs and volumes accordingly.

Figure A.1: Comparison of unit costs by option (£k, 2020/21 prices)



Source: CEPA analysis of DNO data.

Unit costs vary across the options both at company level and for the industry median benchmark.

For OHL services (left hand panel, above), removing the volume adjustment (going from Option 1 to 2) only results in a modest increase in the median unit cost, from £0.35k to £0.44k per addition. By contrast, estimating unit costs using ED2 Years 1–2 outturn data (Option 3) increases the median to £1.44k, i.e. more than a threefold uplift relative to the updated methodology rate. The pattern is consistent with the narrative in DNO RFI responses, which indicated that LV service delivery has required additional works relative to FD assumptions. This points to a material gap in cost reflectivity if current rates are retained (i.e. under Options 1 or 2).

For UG services, the methodological choice has a larger absolute impact than for OHL services, but a smaller proportional impact. Removing the volume adjustment (from Option 1 to 2) increases the median unit cost from £1.60k to £2.21k. Using ED2 outturn data (Option 3) increases it further to £2.65k. Unlike OHL, the company-level movements are mixed: several DNOs show lower actual unit costs in Years 1–2 (Option 3) than the corrected forecast (Option 2) – notably ENWL, WMID, EMID and SWEST – while other DNOs show higher actuals under Option 3. The increase in the median in Option 3 is driven primarily by upward movements among companies around the middle of the distribution.

Box A: Materiality of impact of unit cost differences on allowances

The increase from Option 1 to Option 3 is proportionally much larger for OHL than for UG, suggesting the current OHL rate may be less cost reflective. However, the implications for overall cost recovery are limited for OHL – in comparison to UG – because OHL volumes are very small relative to UG. For UG, the difference between Options 1 and 3 is smaller in unit-cost terms, but it has a much larger impact on total cost recovery, because UG volumes are high.

ENA[14] analysis indicates that, under current unit rates, under-recovery is around £1m for OHL and around £23m for UG across the first two years of ED2. This illustrates that higher-volume activities can drive the majority of overall under-recovery even where the unit cost gap is relatively modest; whereas low-volume activities can show large percentage gaps with only limited impact in £ terms.

Note: Figures compare cost recovery against reported outturn costs and do not assess cost efficiency.

In the ED2 FDs, some licensees received unit rates above the industry median to reflect regional differences. We have therefore applied post-benchmark licence-specific regional uplifts, consistent with the FD approach. These uplifts are applied after the industry median benchmark has been calculated and do not affect the benchmark itself. The resulting licence-specific unit rates are shown in Table A.3 and Table A.4 below.

[14] Referenced in Ofgem's presentation: Load Related Expenditure Volume Drivers Review, 15th December 2025.

Table A.3: Comparison of OHL licence-specific unit rates by option (£k, 2020/21 prices)

Company	(Option 1) Current unit rate	(Option 2) Updated methodology unit rate	(Option 3) ED2 outturn unit rate
ENWL	0.35	0.44	1.44
NPGN	0.35	0.44	1.44
NPGY	0.35	0.44	1.44
WMID	0.35	0.44	1.44
EMID	0.35	0.44	1.44
SWALES	0.35	0.44	1.44
SWEST	0.35	0.44	1.44
LPN	0.45	0.57	1.87
SPN	0.37	0.47	1.55
EPN	0.36	0.46	1.50
SPD	0.35	0.44	1.44
SPMW	0.36	0.46	1.52
SSEH	0.35	0.44	1.44
SSES	0.37	0.47	1.54

Note: Current unit rates are taken from the ED2 licences. Updated unit rates are derived from the relevant industry median benchmark. FD licence-specific regional uplifts are then applied where applicable. For licensees without an FD uplift, the updated unit rate equals the industry median.

Table A.4: Comparison of UG licence-specific unit rates by option (£k, 2020/21 prices)

Company	(Option 1) Current unit rate	(Option 2) Updated methodology unit rate	(Option 3) ED2 outturn unit rate
ENWL	1.60	2.21	2.65
NPGN	1.60	2.21	2.65
NPGY	1.60	2.21	2.65
WMID	1.60	2.21	2.65
EMID	1.60	2.21	2.65
SWALES	1.60	2.21	2.65
SWEST	1.60	2.21	2.65
LPN	2.08	2.87	3.44
SPN	1.73	2.37	2.85
EPN	1.67	2.30	2.76
SPD	1.60	2.21	2.65
SPMW	1.69	2.32	2.79
SSEH	1.60	2.21	2.65
SSES	1.71	2.36	2.83

Note: Current unit rates are taken from the ED2 licences. Updated unit rates are derived from the relevant industry median benchmark. FD licence-specific regional uplifts are then applied where applicable. For licensees without an FD uplift, the updated unit rate equals the industry median.

A.2. Basis for calculating the restated ex-ante allowance

This section explains how we calculate the restated LVSVD ex-ante allowance under the different unit-rate options, and why we use FD implied volumes for this purpose.

We restate the LVSVD ex-ante allowance using FD implied volumes and the relevant unit rates under each option. The LVSVD ex-ante allowance operates as a threshold within the volume driver framework, rather than simply as a forecast of expected expenditure. DNOs can spend up to this notional ex-ante allowance without further scrutiny. Expenditure above that threshold may then be reviewed by Ofgem using the volume driver metric to assess whether additional expenditure reflects efficient and justified delivery.

In that context, the ex-ante allowance reflects the volume threshold that Ofgem considered appropriate at FDs. Figure A.2 illustrates this logic.[15] The dark blue line represents the FD unit rate, and the orange line represents the updated unit rate. The horizontal dashed line represents the FD implied volume. The point where the FD implied volume intersects the FD unit-rate line determines the original FD ex-ante allowance threshold, shown as A_0.

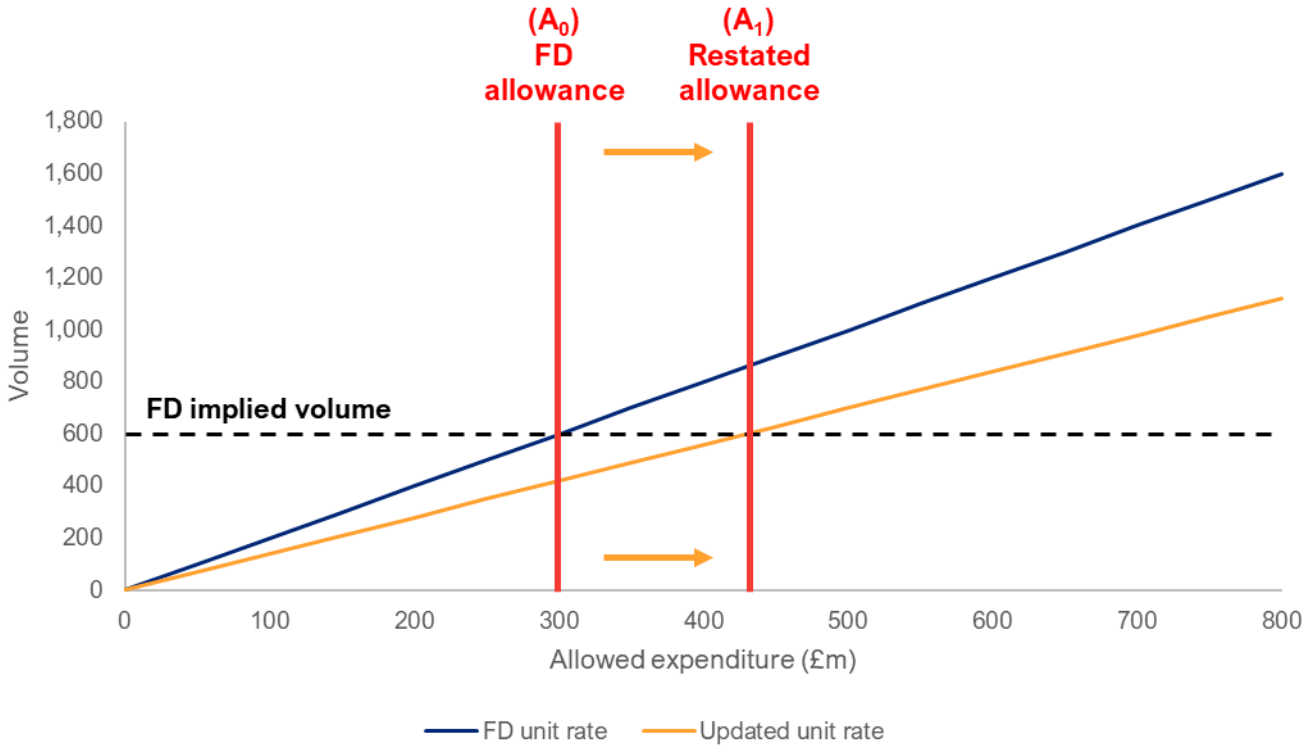
Since this review updates the OHL and UG unit rates, leaving the notional ex-ante allowance unchanged would mean DNOs reach the threshold at a lower volume of delivery.

We therefore hold the FD implied volume constant and apply the updated unit rate. In Figure A.2, this moves the allowance threshold from A_0 to A_1.

[15] To be clear, this diagram is a stylised example and does not use actual values. It is intended only to show how the allowance threshold changes when unit rates are updated.

Restating the allowance on this basis preserves the volume threshold that Ofgem considered appropriate at FDs and ensures DNOs do not reach that threshold earlier solely because the unit rates have been updated.

Figure A.2: Illustrative effect of updated unit rates on the LVSVD ex-ante allowance threshold



Note: Illustrative diagram. The updated ex-ante allowance is calculated by holding FD implied volumes constant and applying the updated OHL and UG unit rates.

A.3. RESTATED EX-ANTE ALLOWANCE UNDER DIFFERENT OPTIONS

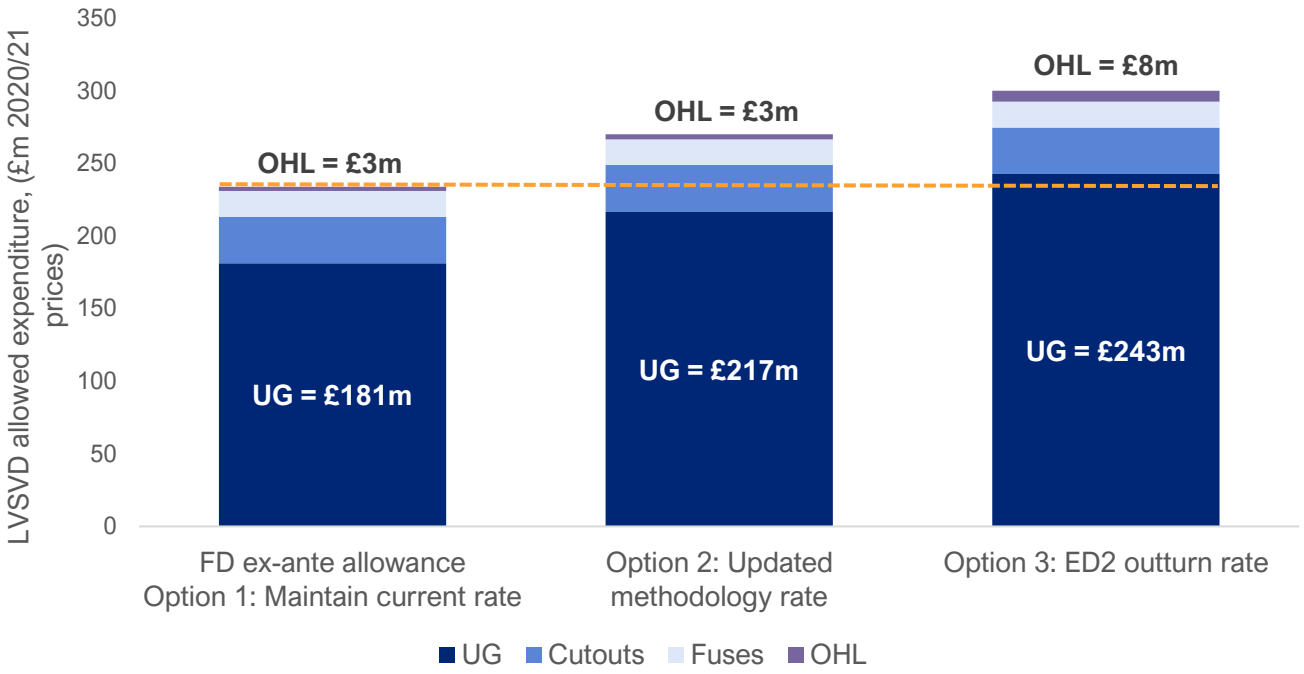
This section presents the restated LVSVD ex-ante allowance under Options 1, 2 and 3 using FD implied volumes. It then presents sensitivity analysis showing indicative allowed expenditure under alternative volume scenarios.

Figure A.3 illustrates the impact of the updated unit rates on the ex-ante allowance, aggregated across all DNOs and across proactive and reactive reinforcement. Values are shown in £m, 2020/21 prices. The impact of the OHL and UG unit-rate update is dominated by UG, because UG additions have materially higher volumes than OHL additions. Cut-out and fuse unit rates are unchanged.

For modelling purposes, the ED2 total is calculated by applying the current licence rates in Years 1–3 and the updated rates in Years 4–5 to FD implied volumes.[16] As discussed above, we consider FD implied volumes to be the appropriate basis for restating the ex-ante allowance. Actual allowed expenditure will depend on outturn volumes and may therefore differ from the restated allowance shown here.

[16] At FDs, Ofgem set an ex-ante allowance for LV services based on a combination of the disaggregated model and the totex model. This allowance is then divided by the allowed unit rate to derive an 'implied volume' i.e., the level of activity the DNO is funded to deliver, assuming delivery at the allowed unit rate. These implied volumes are distinct from the DNOs' submitted forecast volumes for ED2.

Figure A.3: Restated LVSVD ex-ante allowance under unit-rate options (ED2 total; £m, 2020/21 prices)



Source: CEPA analysis of DNO data. The calculation uses FD implied volumes. Years 1–3 apply ED2 FD unit rates; Years 4–5 apply the unit rates under each option.

Under Option 1, the restated ex-ante allowance over ED2 is around £234m based on FD implied volumes. Under Option 2, the ex-ante allowance increases to around £270m. Under Option 3, the ex-ante allowance rises to around £300m. The increase under Options 2 and 3 is driven by higher OHL and UG unit rates applied in Years 4 and 5. OHL contributes only a small share of the total allowance impact because OHL volumes are low relative to UG volumes.

We also test the sensitivity of allowed expenditure to alternative volume scenarios under Option 3. These scenarios use outturn volumes for Years 1–2 and different forecast volume assumptions for Years 3–5. This provides a plausible range of allowed expenditure by the end of ED2. We compare these scenarios with the FD ex-ante allowance and the restated ex-ante allowance using updated rates, which act as thresholds for additional scrutiny under the volume driver framework.

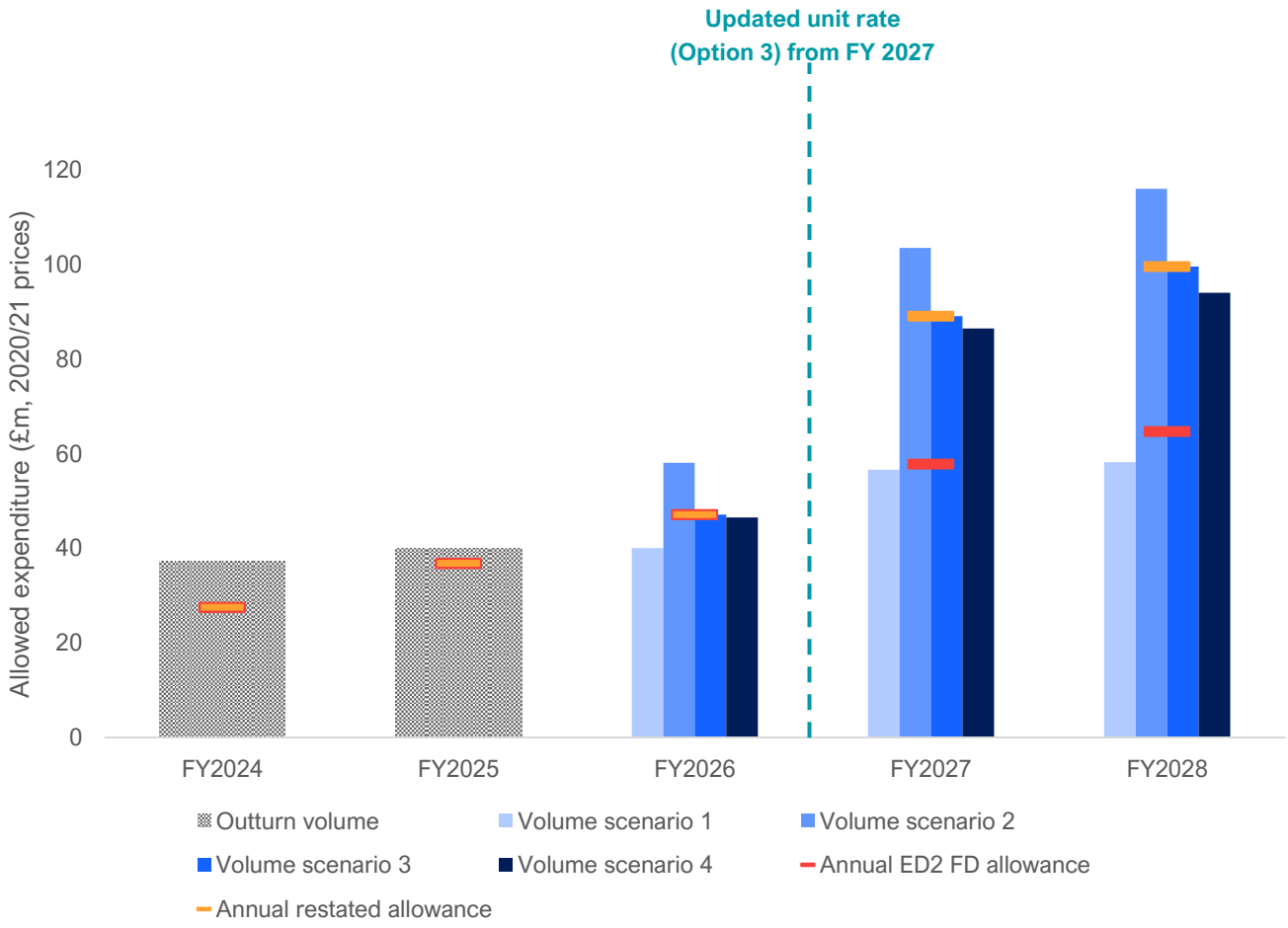
The volume scenarios are:

- **Scenario 1:** Years 3–5 volumes set equal to the latest outturn volumes, i.e., as per Year 2.
- **Scenario 2:** Years 3–5 volumes are based on the implied forecast volumes used for the ED2 FDs, scaled by an adjustment factor reflecting the industry-level average difference between FD-implied volumes and outturn in Years 1–2, calculated as: $avg(\frac{outturn\ volume\ Y1}{implied\ FD\ volume\ Y1}, \frac{outturn\ volume\ Y2}{implied\ FD\ volume\ Y2})$.
- **Scenario 3**: Years 3–5 volumes set equal to the implied forecast volumes used for the ED2 FDs.
- **Scenario 4:** Years 3–5 volumes "catch up" so that total ED2 volumes equal the total implied forecast volumes used in the FDs. Where Years 1–2 outturn volumes have already exceeded total ED2 implied forecast volumes, future volumes are set to zero.

In Figure A.4, the red markers show the annual ex-ante allowance set at FDs and the orange markers show the restated ex-ante allowance. For ED2 Years 1–2, the grey bars show allowed expenditure calculated using existing ED2 unit rates, applied to outturn volumes. The blue bars show allowed expenditure under the four alternative volume scenarios (discussed above) for Years 3–5. In Year 3, allowed expenditure is calculated using the existing

ED2 unit rates (as any update to unit rates would only apply from Year 4). In Years 4–5, allowed expenditure is calculated using Option 3 (the ED2 outturn-based unit rate), which is applied to the four different volume scenarios.

Figure A.4: Impact of volume scenarios on annual LVSVD allowed expenditure (Option 3: ED2 outturn-based rate; £m, 2020/21 prices)



Source: CEPA analysis of DNO data. FY2024–FY2025 (grey bars) show allowed expenditure calculated using ED2 FD unit rates applied to outturn volumes. FY2026 shows allowed expenditure using ED2 FD unit rates under the alternative volume scenarios. FY2027–FY2028 show allowed expenditure under the updated unit rate (Option 3) under the same Years 3–5 volume scenarios.

For Years 4–5, applying the outturn-based unit rate under Option 3 increases allowed expenditure relative to the ED2 FD allowance in three of the four volume scenarios. Only Scenario 1, where volumes remain at FY2025 levels, stays below the FD allowance.

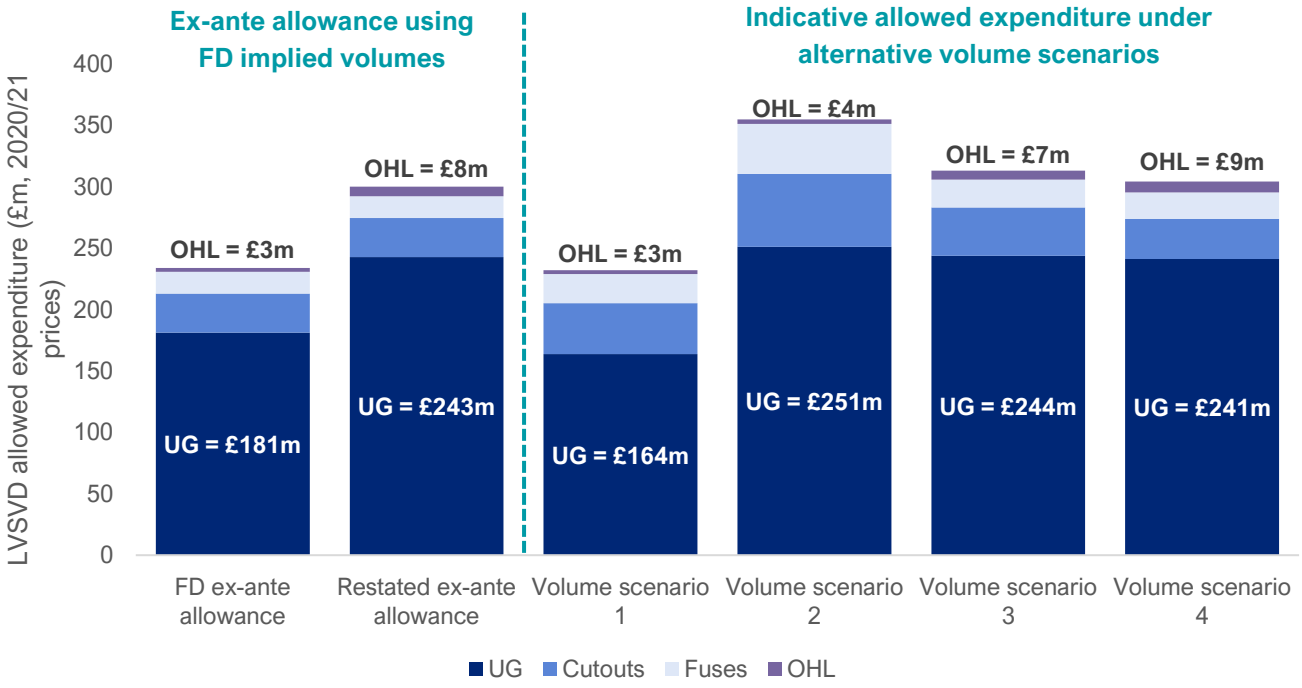
The restated ex-ante allowance is materially higher than the FD allowance and sits within the range of allowed expenditure shown by the volume scenarios. Only Scenario 2 exceeds the restated allowance, reflecting its higher assumed volumes.

The scenarios reflect both the ED2 forecast volume profile and observed Years 1–2 outturn volumes. Scenario 1 produces the lowest expenditure because it holds Years 3–5 volumes constant at FY2025 levels, rather than assuming the increasing volume profile expected at FDs.

Scenario 2 produces the highest expenditure because it rolls forward observed Years 1–2 delivery relative to FD implied volumes. Across the full LVSVD, Years 1–2 outturn volumes were materially above FD implied volumes, driven mainly by cut-outs and fuses. This means Scenario 2 assumes future LVSVD volumes continue to exceed the FD implied volume basis overall, although the scaling differs by activity.

To illustrate the overall impact across ED2, we sum the annual values (in Figure A.4) to derive the ED2 totals. Figure A.5 presents total allowed expenditure over ED2 under each volume scenario, including the split by service, if ED2 outturn-based unit rates are implemented (Option 3) for Years 4–5.

Figure A.5: Restated ex-ante allowance and indicative allowed expenditure under alternative volume scenarios (Option 3; £m, 2020/21 prices)



Source: CEPA analysis of DNO data.

Under Scenario 1, where Years 3–5 volumes are held at Year 2 outturn levels, total allowed expenditure remains slightly below the FD ex-ante allowance. Under Scenarios 2, 3 and 4, allowed expenditure is above the FD allowance.

Scenario 2 produces the highest allowed expenditure. This scenario scales FD implied volumes up or down to reflect observed Years 1–2 outturn delivery relative to FD implied volumes. Under Scenario 2, total allowed expenditure is around £121m higher than the FD allowance and around £55m higher than the restated ex-ante allowance.

Tables A.5–A.7 show the impact of the different unit-rate options by licence, using FD implied volumes. The tables present the restated ED2 ex-ante allowance for OHL, UG and the full LVSVD under Options 1, 2 and 3.

These figures use the volume basis implied by the FD allowances. Actual allowed expenditure under the volume driver will depend on outturn volumes across ED2.

Table A.5: Restated OHL ex-ante allowance by licence under Options 1, 2 and 3 (£m, 2020/21 prices)

Restated ex-ante allowance, £m	FD ex-ante allowance Option 1	Volume correction Option 2	Outturn rate Option 3
ENWL	-	-	-
NPGN	-	-	-
NPGY	-	-	-
WMID	0.02	0.02	0.05
EMID	0.02	0.03	0.05
SWALES	0.01	0.01	0.02
SWEST	0.01	0.01	0.03
LPN	-	-	-
SPN	1.29	1.46	3.30
EPN	1.45	1.66	3.83
SPD	-	-	-
SPMW	-	-	-
SSEH	0.03	0.03	0.05
SSES	0.11	0.13	0.25
Total	**2.94**	**3.35**	**7.59**

Source: CEPA analysis of DNO data. Calculated using FD implied volumes. Current licence rates are applied in Years 1–3. Unit rates under each option are applied in Years 4–5. Dashes indicate that the relevant DNO reported zero volumes for that activity in the underlying data.

Table A.6: Restated UG ex-ante allowance by licence under Options 1, 2 and 3 (£m, 2020/21 prices)

Restated ex-ante allowance, £m	FD ex-ante allowance Option 1	Volume correction Option 2	Outturn rate Option 3
ENWL	13.48	16.46	18.62
NPGN	14.01	17.62	20.22
NPGY	23.68	29.85	34.30
WMID	17.61	20.41	22.42
EMID	19.73	22.95	25.28
SWALES	6.12	7.30	8.15
SWEST	8.65	10.22	11.36
LPN	3.40	4.12	4.63
SPN	3.28	3.88	4.32
EPN	3.70	4.42	4.95
SPD	34.68	41.29	46.06
SPMW	19.92	23.60	26.35
SSEH	5.17	5.80	6.26
SSES	7.76	8.92	9.76
Total	**181.21**	**216.86**	**242.69**

Source: CEPA analysis of DNO data. Calculated using FD implied volumes. Current licence rates are applied in Years 1–3. Unit rates under each option are applied in Years 4–5.

Table A.7: Restated LVSVD ex-ante allowance by licence under Options 1, 2 and 3 (£m, 2020/21 prices)

Restated ex-ante allowance, £m	FD ex-ante allowance Option 1	Volume correction Option 2	Outturn rate Option 3
ENWL	21.18	24.17	26.33
NPGN	18.59	22.20	24.80
NPGY	31.42	37.59	42.04
WMID	18.64	21.44	23.48
EMID	20.94	24.17	26.52
SWALES	6.55	7.73	8.59
SWEST	9.25	10.82	11.97
LPN	5.13	5.85	6.36
SPN	8.42	9.19	11.48
EPN	9.50	10.43	13.13
SPD	42.95	49.56	54.33
SPMW	24.67	28.35	31.10
SSEH	6.55	7.19	7.67
SSES	9.99	11.16	12.13
Total	**233.79**	**269.85**	**299.92**

Source: CEPA analysis of DNO data. Calculated using FD implied volumes. Current licence rates are applied in Years 1–3. OHL and UG unit rates under each option are applied in Years 4–5. Cut-out and fuse unit rates are unchanged.

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