Decision

Review of RIIO-ED2 Load Related Expenditure volume drivers

Publication date:	11 June 2026
Contact:	John Kennedy
Team:	Electricity Distribution Policy
Email:	RIIOED2@ofgem.gov.uk

This document sets out our decision on changes to the RIIO-ED2 Load Related Expenditure (LRE) volume drivers. The changes consist of an increase to the Low Voltage Services Volume Driver (LVSVD) unit rates; a higher LVSVD ex ante allowance for all Distribution Network Operators (DNOs); a revision to the Secondary Reinforcement Volume Driver (SRVD) cap for one DNO and changes to the LVSVD reporting metric. These changes will ensure that licensees can invest in their networks to meet net zero, without customers paying for more than is necessary. It also fulfils our commitment in the LRE Governance Document to conduct a review and decide on any potential changes to the LRE volume drivers within the RIIO-ED2 period.

Contents

1. Introduction

This chapter summarises the background to our decision, key context and next steps.

Background

1.1 Network companies are natural monopolies. Effective regulation of privatised for-profit monopolies is essential to ensure they cannot unfairly exercise their monopoly power to the detriment of their customers. Ofgem regulates the energy sectors through a price control model known as RIIO (Revenue = Incentives + Innovation + Outputs). RIIO-2 is the second electricity and gas price control under the RIIO model. The current price control period for electricity distribution (ED) sector (RIIO-ED2) runs from 1 April 2023 to 31 March 2028.

1.2 We published our RIIO-ED2 Final Determinations for the electricity Distribution Network Operators (DNOs) in November 2022. This set out the key elements of the price control from 1 April 2023 to 31 March 2028. This included an uncertainty mechanism: a Low Voltage Services Volume Driver (LVSVD) and Secondary Reinforcement Volume Driver (SRVD) for Load Related Expenditure (LRE) – collectively referred to as the LRE Volume Drivers.

1.3 The administration of the LRE Volume Drivers is described in the LRE Volume Drivers Governance Document (the LRE Governance Document). The LRE Governance Document states that there should be a review of the LRE Volume Drivers during the control period, starting in October 2025. The intent behind having a review was to ensure that the volume drivers were functioning as intended, ie that licensees can invest in the network, or procure flexibility services, to meet net zero, without customers paying for work that is not necessary.

1.4 The LRE Governance Document confirms that if, because of the review, the Authority identifies changes required to be made to either the electricity distribution licence or the LRE Governance Document, it will make those changes following the statutory modification process set out in S11A of the Electricity Act 1989. Paragraph 5.5 of the LRE Governance Document confirms that "any changes that are made as a result of the review of LRE Volume Drivers…will be enacted on a forward-looking basis. No changes will be made to allowances for volumes that have already been delivered".

1.5 Following a review of the first two years of operation, we published a consultation on proposed changes to the LRE Volume Drivers on 27 February 2026. We are now publishing our decision on our proposals and a statutory consultation on licence modifications to implement these changes.

Context and related publications

1.6 This decision should be read alongside the following publications:

- RIIO-ED2 Final Determinations | Ofgem
- Decision on the proposed modifications to the RIIO-2 Electricity Distribution licences | Ofgem, specifically SpC 3.9 (Load Related Expenditure volume drivers) of the RIIO-ED2 licence which established the Load Related Expenditure Volume Drivers Governance Document ("the LRE Governance Document") and the RIIO-ED2 LRE Volume Drivers Workbook ("the LRE Volume Drivers Workbook"). The Governance Document provides information on the reporting requirements and methodologies for the LRE Volume Drivers.
- Changes to RIIO-ED2 Load Related Expenditure volume drivers | Ofgem. Our consultation on the proposed changes to the LRE Volume Drivers that we identified as part of this work.

Next steps

1.7 Changes to LVSVD unit rates, LVSVD ex ante allowances and, for SP ENW only, the SRVD cap will be implemented by modifying SpC3.9 of the Electricity Distribution Licence. A statutory consultation on proposed licence modifications has been published alongside this decision.

1.8 We are still considering changes to the SRVD metrics and any changes to these, as well as our decision on the LVSVD metric, will be implemented as part of the review of the LRE Volume Drivers Governance Document that we plan to consult on this year.

2. Low Voltages Services volume driver

This section sets out our decisions on the LVSVD volume driver unit rates, ex ante allowances, cap and metric.

Introduction

2.1 The LVSVD is designed to fund work relating to LV Service reinforcement, including works associated with “unlooping” of LV Service cables. It covers the following activities: installation of new overhead pole lines – LV Service (OHL); installation of underground cables – LV Service (UG); works to upgrade switchgear cut outs – Cut Out (metered); works to upgrade switchgear fuses and fuse upgrades.

2.2 Looped connections can limit the electrical capacity available at a domestic premise, which might restrict the ability of customers to adopt Low-Carbon Technologies (LCTs) like heat pumps and electric vehicles (EVs). Unlooping refers to the process of separating shared electricity network connections ("looped services”) into individual, direct connections to the main network. Proactive unlooping is the planned, early separation of looped services by DNOs between neighbouring properties to provide each home with a dedicated, direct connection. Reactive unlooping is the process where DNOs separate looped services between neighbouring properties in response to a customer request for an upgrade, such as installing an EV charger or a heat pump.

2.3 The LVSVD volume driver is used to vary allowances based on set unit costs for the volume of assets reinforced for each activity. The same unit cost applies irrespective of whether the works are proactive or reactive. In each case, the volume measure is the number of each type of activity delivered multiplied by a unit cost, where the specific activities are as follows:

- Overhead pole lines – LV Service (OHL);
- Underground cables – LV Service (UG);
- Switchgear – Cut Outs (metered); and
- Switchgear – Fuse upgrades.

2.4 LVSVD unit costs were derived using an industry benchmark approach, as part of the process of setting the RIIO-ED2 price control that began on 1 April 2023. For LV services, we combined proactive and reactive costs and volumes to derive a common set of RIIO-ED2 industry median unit costs for each LV service asset category, which were then applied as unit rates within the mechanism.

2.5 Licensees received a notional ex ante allowance for the whole of RIIO-ED2, set at the start of the Price Control Period and shown in Appendix 3 of SpC 3.9. The notional allowance was calculated as the sum of the projected volumes to be

delivered multiplied by the relevant unit rates. The LVSVD sets the actual money recovered by the licensee for the activity based on what work is carried out and may be more or less than the ex ante allowance for LV Services.

2.6 Licensees can spend up to their ex ante allowance without further scrutiny. Once a licensee exceeds its ex ante allowance, it must pass the LVSVD metric ("Metric 6"). The metric's purpose is to check that LV Service cables (overhead pole lines and cables), fuse upgrades and cut outs (metered) are in most cases only being reinforced as part of unlooping a supply. It is applied to expenditure above the ex ante allowance. If the LVSVD metric is not passed, Ofgem can seek an explanation and/or evidence and may withhold allowances above the ex ante allowance for activity outside tolerance or not evidenced as efficient.

2.7 In addition, the total expenditure that can be recovered through the LVSVD is subject to a cap. The cap is individual to each licensee and applies to the whole of the Price Control Period. The value of each licensee's cap is set out in SpC 3.9.

2.8 As noted in paragraphs 1.3 and 1.4, the LRE Governance Document confirmed there would be a review of the LRE Volume Drivers during the control period, with any changes that are made because of that review enacted on a forward-looking basis only.

Review of the LVSVD unit rate

2.9 We published a consultation on 27 February 2026 that closed on 28 March 2026. We set out four shortlisted options for updating the LVSVD unit rate:

1. Option 1: use current rate: maintain the existing RIIO-ED2 unit rates for OHL and UG services (no recalculation or updates);
2. Option 2: use updated methodology rate: apply the RIIO-ED2 methodology on a consistent per-addition basis by removing the volume-doubling treatment for SP ENW and NGED with no other changes;
3. Option 3: use ED2 outturn rate: estimate unit rates using RIIO-ED2 Years 1-2 outturn costs and volumes as reported by DNOs, and consistent with Option 2, remove the SP ENW/NGED volume-doubling treatment. This includes making cost and volume adjustments for outliers; and
4. Option 4: use DNO forecast rate: set unit rates using DNO forward-looking forecast unit costs (based on company submissions and supporting evidence).

2.10 Prior to the consultation CEPA, on our behalf, carried out analysis on the options and calculated proposed unit rates. Based on the work carried out by CEPA we proposed using Option 3, ie the RIIO-ED2 outturn rates, provided further assurance was received on the reliability of outturn unit cost data from the DNOs. This was because it used realised RIIO-ED2 costs to calibrate the unit rates, thereby reflecting additional work that was not fully captured in RIIO-ED2 Final Determinations.

2.11 The consultation asked stakeholders for views on our proposed use of Option 3 and the resulting unit rates.

Consultation responses

2.12 Most respondents supported using Option 3 as a pragmatic way to improve cost reflectivity relative to the Final Determinations baseline, while retaining an industry-median approach.

2.13 UK Power Networks (UKPN) agreed with Option 3 in principle but stressed that Ofgem/CEPA had omitted a key methodological step. UKPN argued Ofgem/CEPA did not replicate the Final Determinations approach of normalising unit costs and applying regional adjustments after calculating the median, which (in UKPN's view) results in erroneous proposed values for its licence areas.

2.14 National Grid Electricity Distribution (NGED) similarly agreed Option 3 was the most appropriate option against Ofgem's criteria. Northern Powergrid (NPg) supported Option 3 as a robust basis for recalibration using RIIO-ED2 Year 1–2 actuals. Scottish Power Electricity North West (SP ENW) agreed with Option 3 and welcomed the methodological coherence of using RIIO-ED2 outturns.

2.15 Scottish Power Energy Networks (SPEN) preferred Option 4 but stated it could accept Option 3; its core concern was that Option 3 is anchored in historic delivery and may not reflect evolving delivery mix (notably a rising share of reactive work) and its preferred future approach (including three-phase interventions where practicable). Scottish and Southern Electricity Networks (SSEN) did not support Option 3, stating it remained insufficient to cover incurred and forecast efficient costs, and argued the consultation did not provide adequate evidence for rejecting Option 4.

2.16 Several respondents disputed the consultation statement (and related CEPA report) that not all DNOs provided forecast information in response to the RFI and requested that Ofgem correct the record in the decision.

2.17 Views on the proposed unit rates were more mixed than views on Option 3 as a method. While DNOs broadly support the proposed update of the OHL and UG LVSVD unit rates, several responses raised issues relating to methodology, knock-on impacts on the calculation of ex ante allowances and implementation. Some DNOs argued that forecast-based unit costs should have been considered further, particularly to reflect future work mix and increasing reactive volumes. Others indicated that further forecast analysis should not be pursued if it would be resource-intensive or delay updated rates.

2.18 DNOs noted that Ofgem applied licence-specific regional adjustments at RIIO-ED2 FDs and argued that this should be reflected in the updated rates. NPg also

identified that the allowance calculation used ex ante allowance values originating from before the CMA appeal on RIIO-ED2 FDs and required updating. Finally, DNOs noted that the allowance tables should show the full LVSVD allowance, including cut-outs and fuses, rather than only OHL and UG service additions. why

2.19 UKPN, NGED, SPEN, SP ENW and SSEN all disagreed with implementing the revised unit rates from Year 4 of RIIO-ED2. UKPN, SPEN and SSEN argued that revised unit rates should apply from Year 3 of RIIO-ED2 rather than from Year 4 onwards, on the basis that Year 3 volumes are not yet finalised or reported and should therefore be treated as forward-looking. Others argued that the review outcome should apply from Year 3 onwards, linking this to under-recovery in Years 1 and 2 and the fact the review is based on Years 1 and 2 data.

Our decision

2.20 We have decided to maintain our consultation position and update the OHL and UG LVSVD unit rates using Option 3 (ie, Years 1–2 outturn costs and volumes). This option uses actual RIIO-ED2 costs to calibrate the OHL and UG benchmarks. This ensures that rates are more cost reflective and mitigate against the risks that a lower unit rate may disincentivise delivery, particularly of proactive activity. It also resolves the inconsistency embedded in the original unit rate derivation.

2.21 CEPA have assessed the feedback from DNOs and updated their analysis. This has corrected for material OHL outliers, and those corrections are reflected in the Option 3 benchmark dataset. CEPA have applied relevant cost normalisations before deriving the industry median benchmark. These are pre-benchmark normalisations to improve cost comparability. CEPA has addressed the methodological point raised in consultation by applying licence-specific regional uplifts after calculating the benchmark, consistent with the RIIO-ED2 Final Determinations approach. This maintains an industry median benchmark while producing licence-specific unit rates where regional uplifts apply.

2.22 We can confirm that all DNOs provided forecasts of unit costs for years 3-5. However, these submissions did not form a sufficiently consistent, evidenced or benchmarkable forecast dataset to be used in CEPA's analysis.

2.23 We acknowledge that two respondents preferred approach would be Option 4 (using DNO forecast rate for years 3-5). Although DNOs are best placed to understand the costs and volumes they expect to incur in RIIO-ED2 Years 3-5, the evidence did 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 were not prepared on a common forecast basis. They combined 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 update, requiring all DNOs to develop, evidence and align forecasts to a common standard would not be proportionate.

2.24 We set out the current and revised OHL and UG unit rates in Tables 1 and 2 below:

Table 1: OHL unit costs by (£k, 2020/21 prices)

Unit Costs, £k	Current	Revised
SP ENW	0.35	1.44
NPgN	0.35	1.44
NPgY	0.35	1.44
WMID	0.35	1.44
EMID	0.35	1.44
SWALES	0.18	1.44
SWEST	0.35	1.44
LPN	0.45	1.87
SPN	0.37	1.55
EPN	0.60	1.50
SPD	0.35	1.44
SPMW	0.60	1.52
SSEH	0.35	1.44
SSES	0.37	1.54

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

Unit Costs, £k	Current	Revised
SP ENW	1.60	2.65
NPgN	1.60	2.65

Unit Costs, £k	Current	Revised
NPgY	1.60	2.65
WMID	1.60	2.65
EMID	1.60	2.65
SWALES	1.60	2.65
SWEST	1,60	2.65
LPN	1.73	3.44
SPN	1.73	2.85
EPN	1.67	2.76
SPD	1.60	2.65
SPMW	1.69	2.79
SSEH	1.60	2.65
SSES	1.71	2.83

2.25 For the avoidance of doubt, unit costs for cut outs and fuse upgrades are unchanged by this review, as issues were not identified with the unit costs, and - therefore these values remain at the level set in RIIO-ED2 Final Determinations.

2.26 We have carefully considered stakeholder views on the timing of implementation. We have considered the arguments for and against making a retrospective change, the impact on consumers and the framework established in the LRE Governance Document.

2.27 Setting an ex ante price control for a defined period is intended to provide certainty and predictability for both licensees and consumers. While, with any agreement involving forecasts over an extended period, there is potential for licensees to gain or lose in individual parts of the price control, we need to be cognisant of the overall settlement. There is therefore a high bar for re-opening determinations or making changes in specific areas that would have retrospective effect. While we may have the power to make retrospective adjustments, there is a strong presumption against doing so, to avoid unfairly advantaging or disadvantaging parties based on changes they could not reasonably have anticipated. It could also impact on perceptions of the stability and predictability of the regime, which in turn could lead to increased costs for consumers

2.28 We consider that this approach applies symmetrically. Had our review concluded that unit rates should be revised downwards, applying those changes retrospectively would have resulted in funds being returned for delivery that had already taken place, introducing additional uncertainty and risk for DNOs. We consider therefore that implementing these changes on a clearly forward-looking basis best balances cost reflectivity, regulatory certainty and the protection of consumers' interests.

2.29 We do not consider that there is any basis for an expectation to have arisen that changes would be effective from April 2025. Our approach is consistent with what is stated in the LRE Governance Document and outlined above in paragraph 2.10. This principle was communicated to licensees in the working groups leading up to the consultation. The point at which volumes are delivered is when the underlying activity is undertaken and costs are incurred, not when outputs or volumes are reported through the Regulatory Reporting Pack (RRP). We therefore do not accept that Year 3 should be treated as forward-looking solely because RRPs have not yet been submitted. Doing so would treat delivery as contingent on reporting milestones rather than operational reality. Implementing the change from April 2025 would increase the costs borne by consumers with no increase in volumes delivered over Year 3. Applying revised rates from April 2026 is consistent with this established framework and provides clarity on how changes flow through to allowances.

Review of the LVSVD ex ante allowance and cap

2.30 We proposed that the ex ante allowance should be recalibrated on the basis that if there is a correction or recalculation of LVSVD unit costs, these should be reflected in the ex ante allowance. Even though most allowances have not yet been spent, this would otherwise create the potential for clawing back funds sooner than would have been the case.

2.31 We did not propose to revise the cap, as we had not seen compelling evidence that DNOs were likely to breach the LVSVD cap during the remainder of RIIO-ED2.

2.32 The consultation asked stakeholders for views on our proposed LVSVD ex ante allowances.

Consultation responses

2.33 Respondents largely agreed in principle that ex ante allowances should be recalibrated if unit rates change but argued the consultation's proposed recalculation was incomplete or based on incorrect inputs.

2.34 NGED agreed the ex ante allowance should be recalculated but said the consultation proposal did not represent a complete or robust LVSVD ex ante allowance because the values presented reflected only overhead/underground

service reinforcement and did not clearly include cutouts and fuses; it also set out additional methodological concerns with CEPA's ex ante calculations.

2.35 NPg stated there were two issues in the consultation's ex ante recalculation: (i) the ex ante values used were the pre-CMA figures rather than the lower post-CMA values in SpC 3.9; and (ii) the recalculated allowances omitted the cut-out and fuse upgrade components that form part of the LVSVD mechanism, which need to be added back to derive the full allowance.

2.36 SP ENW similarly stated the calculation reflected service cables only and that the cut-outs and fuses component of the existing allowance needed to be added back when revising the total LVSVD ex ante allowance; it also noted that correcting the NPg allowance inputs would have knock-on impacts on other DNO allowances.

2.37 SPEN stated the recalculated ex ante allowance needed to be updated to reflect: (i) the correct unit rates, (ii) the inclusion of cut-out and fuse upgrade elements that were missing from the recalculation, and (iii) the appropriate application of regional adjustments if Option 3 is used.

2.38 SSEN did not agree with the proposed recalculated ex ante allowance, primarily because the proposal would reduce its ex ante allowance and, in its view, lacked robust evidence and did not reflect that delivery volumes are expected to increase later in the control period; SSEN also raised regional adjustment concerns and pointed to the NPg allowance input issue.

2.39 UKPN agreed with Ofgem's proposed recalculation of the LVSVD ex ante allowance and the rationale for doing so (while separately disputing the unit rate calculations as applied to UKPN licence areas).

2.40 SPEN were the only respondent that commented on the LVSVD cap. They argued that the cap should also be revisited, to reflect the use of the revised units. The revised cap would avoid any unintended constraints on limiting the DNOs' drive to remove looped services.

Our decision

2.41 We have decided to recalibrate the ex ante allowance to reflect the change in the unit rates outlined above (based on Option 3). This should minimise the risk of DNOs being disincentivised from carrying out work that would otherwise take place and or prioritising only unavoidable, reactive works.

2.42 The allowance will be based on the implied FD volumes multiplied by the new unit rate (based on Option 3 above). We decided not to adjust years 3-5 volume values by scaling them to be in line with the percentage of volumes delivered in years 1 and 2 for the sector.

2.43 We have updated the allowance calculations to reflect NPg's post-CMA ex ante allowance values and the corresponding implied FD volumes.

2.44 We have decided not to change the LVSVD cap. Notwithstanding the increase in the unit rates, we have seen no further compelling evidence that DNOs are likely to breach the LVSVD cap during the remainder of RIIO-ED2.

2.45 We set out our recalculated ex ante allowances below in Table 3, including cut-outs and fuses. It should be noted that cut-out and fuse unit rates are unchanged. The current licence rates apply in Years 1–3 and the updated rates below in Table 3 will apply in Years 4–5.

Table 3: Recalculated ex ante allowances based on option 3

Ex ante allowance, £m	Current	Updated
SP ENW	21.18	26.33
NPgN	18.59	24.80
NPgY	31.43	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**

Review of LVSVD Metric 6

2.46 Metric 6 (the LV Services Unlooping metric) is designed to control against sub-optimal proactive reinforcement of LV Services assets.[1] The metric checks that LV Service cables (overhead pole lines and cables), fuse upgrades and cut-outs (metered) are in most cases only being reinforced as part of an unlooping. In relation only to LV Service Proactive Works: if the number of (i) LV Service overhead pole lines and LV Service cables, (ii) cut outs (metered), or (iii) fuse upgrades exceeds the number of properties unlooped by more than 20% then the check will not be passed. Metric 6 is the only metric applicable to the LVSVD.

2.1 We proposed that an adjustment should be made to the metric to ensure that DNOs are not disincentivised from carrying out these proactive programmes. We were not in favour of retiring the metric as there is risk that there could be inefficient spend or unnecessary works carried; and customers could bear unjustified costs.

2.2 Specifically, we proposed that the number of properties unlooped exceedance threshold should increase to 40% for the check to be passed. This should ensure sufficient headroom based on the evidence we have seen so far and mitigate against DNOs being unnecessarily penalised for delivering works that support LCT ambitions while maintaining network safety.

2.3 The consultation asked stakeholders for views on our proposed change to Metric 6.

Consultation responses

2.4 All six respondents (UKPN, NGED, SSEN, SPEN, SP ENW and NPg) supported increasing the LVSVD metric tolerance from 20% to 40%, agreeing that this would reduce the risk of disincentivising justified standalone service upgrades.

2.5 SPEN and SP ENW sought clarification that performance would be assessed over the full RIIO-ED2 period, rather than annually, to avoid distortions arising from profiling of interventions between years.

Our decision

2.6 We have decided to increase the tolerance from 20% to 40% for Metric 6. This will ensure that DNOs are not disincentivised from carrying out proactive programmes that support the uptake of LCTs.

[1] All metrics are described in detail in Appendix 1.

2.7 We also clarify that that performance will be assessed over the full RIIO-ED2 period, rather than annually.

3. Secondary Reinforcement volume driver

This section sets out our decisions on the SRVD volume driver unit rates, ex ante allowances, caps and metrics.

Introduction

3.1 The SRVD funds certain activities that are required to manage load related capacity constraints affecting substations and circuits on the secondary distribution network at voltages up to 22kV. The activities in scope for the SRVD are the reinforcement of ground mounted and pole mounted transformers; the reinforcement of overhead lines and underground cables and the use of flexibility services to defer reinforcement of either transformers, overhead lines or underground cables (or any combination of these).

3.2 The purpose of the SRVD is to fund reinforcement works (or flexibility services) for assets that are highly utilised. For transformers, the threshold for the SRVD is where utilisation is above, or forecast to be above, 100%. Assessment of transformer utilisation is based on a forecast of the year ahead.

3.3 The SRVD mechanism is used to vary allowances based on set unit costs for the following secondary reinforcement activities:

- Substations: MVA gross additions for pole mounted transformers (PMTs) and ground mounted transformers (GMTs).
- Circuits: km additions for overhead pole lines and underground cables, with separate unit costs for each, by voltage level (HV and LV)
- Flexibility services: gross deferred secondary reinforcement in substations (MVA) and/or circuits (km)

3.4 Licensees were set an ex ante secondary reinforcement allowance for the whole of RIIO-ED2, set at the start of the Price Control Period and is shown in Appendix 3 of SpC 3.9. The allowance is a notional allowance. Actual allowances are calculated as the sum of the volumes delivered multiplied by the relevant unit rates as set out in SpC 3.9. If the ex ante allowance is exceeded, the licensee must then pass the SRVD metrics.

3.5 Five metrics are included in the monitoring and reporting package for the SRVD, to help guard against sub-optimal investment, above ex ante funding levels. These are as follows:

- Metric 1: Transformer utilisation
- Metric 2: Transformer capacity released ratio
- Metric 3: Circuits length added ratio

- Metric 4: Measured Low Voltage Peak Demand Growth and Electricity Consumption Growth Indices
- Metric 5: Flexibility procured transformer utilisation

Review of the SRVD unit rates

3.6 We had not seen any evidence that there are issues with the SRVD unit rates and therefore did not propose to make any changes at this time.

Consultation responses

3.7 We did not ask a specific question about the rates, nor did respondents raise any issue with the rates in their responses.

Our decision

3.8 We have decided to maintain the current SRVD unit rates and have seen no new evidence during the consultation process to suggest that they need to be revised, therefore the rates will remain unchanged.

Review of the SRVD ex ante allowance and cap

3.9 Although DNOs were closer to exhausting their ex ante allowances than with the LVSVD ex ante allowance, which places more emphasis on the effectiveness of the metrics as they would be used as the evidence to support any claw-back of funds, we did not propose any changes to SRVD ex ante allowances as we were not planning to review the SRVD unit rates.

3.10 In December 2025, we published our RIIO-2 Re-opener Applications 2025 Final Determination, stating that the issues raised by SP ENW in their LRE re-opener application should be considered through the review of the LRE volume driver mechanisms. SP ENW subsequently requested as part of this review that their SRVD cap be revised. Given this, we considered that, for the SRVD volume driver to operate as intended, the SP ENW SRVD cap should be increased to accommodate the additional activity, noting that the additional investments were always eligible to be accommodated by the volume driver. In particular, the costs associated with transformer upsizing and HV feeder splitting should be reflected in an uplift to the SRVD cap to ensure the mechanism is able to support efficient delivery of the reinforcement requirements the re-opener final determination has assigned to it.

3.11 We did not see compelling evidence that DNOs, other than SP ENW, were likely to breach their SRVD cap. We therefore did not propose any further change to the cap.

3.12 We asked stakeholders for the view on our proposed change to the SRVD cap for SP ENW.

Consultation responses

3.13 The respondents who explicitly addressed this issue supported the proposal to change the SRVD cap for SP ENW. They agreed that the change appropriately reflects the scale and nature of SP ENW's justified LRE re-opener and expected increases in transformer upsizing and HV feeder splitting activity.

3.14 SSEN commented that there was not enough detail provided in the consultation to fully understand the proposed changes to the SRVD cap for SP ENW, however, as it did not affect SSEN, it did not have any immediate concerns.

3.15 No respondents opposed the proposal.

Our decision

3.16 We have decided to implement our proposed changes to the cap for SP ENW. This gives effect to SP ENW's Final Determination of their LRE re-opener application for secondary reinforcement, where we stated that these should be progressed through the volume driver mechanisms and its associated review process. The adjusted cap will be £52.3m, an increase of £13.1m on the existing cap of £39.2m.

3.17 SP ENW expects its SRVD expenditure to rise significantly over the remainder of RIIO-ED2, moving from current allowance utilisation levels to exceeding our capped allowances by the end of the period. This has been driven by increasing transformer utilisation across its secondary networks; the reinstatement and incorporation of upsizing interventions into the volume driver mechanism; a substantial programme of HV feeder splitting that will increase volumes, with most impacts falling in in the financial years 2027 and 2028 and an acceleration of its proactive unlooping programmes. We agree that increasing SP ENW's SRVD cap is therefore appropriate.

Review of SRVD Metrics 1 - 5

3.18 Five performance metrics are used to protect customers against unjustified costs arising from sub-optimal investment in the network. This is achieved by each metric identifying whether DNOs are exhibiting unexpected behaviour, eg increasing investment when LCT demand is less than expected or reinforcing a high proportion of low utilised assets.

3.19 DNOs provide annual information which is used to track their performance against these metrics. Where DNO expenditure is within ex ante allowances for secondary reinforcement, the results from the metrics will not lead to withholding

of allowances. If, having exceeded its ex ante allowance, a DNO does not pass all the metrics, we will initiate a review of costs, volumes, and additional information submitted by the DNOs. This review could lead to allowances incurred above the ex ante allowance being disallowed, on the basis they are inefficient, unless we see strong justification as to why the expenditure was required.

Time horizon for metrics

3.20 We proposed that all metrics should consider an overall RIIO-ED2 position and not an annual / year-to-date position.

Tolerance level calibration

Metric 1, Metric 2 and 3

3.21 Metric 1 is a transformer utilisation metric that assesses PMT and GMT capacity added. It is designed to control against sub-optimal reinforcement of transformers. The metric checks that reinforcement activities, funded through the SRVD, are occurring within areas where transformer utilisation is above, or forecast to be above 100%. Where transformation utilisation is below 100%, DNOs are allowed to fund up to 10% in capacity additions for the reinforcement of transformers to account for situations where it is justified, or necessary for safety reasons. Where the cumulative SRVD spend is above the ex ante allowances and a DNO does not pass the metric, we will review costs, volumes, and additional information submitted by the licensee and may disallow some of the spend to be clawed back due to sub-optimal expenditure.

3.22 Metrics 2 and 3 assess whether capacity added, and circuits added, are proportional to changes in LCT volumes, each with a 10% tolerance band. As Metric 1, where the cumulative SRVS spend is above the ex ante allowances and a DNO does not pass the metric, we will review costs, volumes, and additional information submitted by the licensee and may disallow some of the spend to be clawed back due to sub-optimal expenditure.

3.23 We proposed two revisions to Metric 1, 2 and 3:

- Incorporating a longer-term forecast (rather than year ahead utilisation) of a rolling 5-year forecast (e.g. 2027 against 2032 forecast, 2028 against 2033 forecast)

- Given there is a recognition that the current reinforcement band may be too tight to enable the capture the synergies between replacement and reinforcement, increasing the tolerance band from 10% to 25% should provide more of an incentive to do proactive work and better support timely, justified interventions that maintain network safety, facilitate load growth and LCT uptake, whilst continuing to protect customers from inefficient or unjustified costs.

Metric 5 flexibility procured transformer utilisation

3.24 The flexibility procured transformer utilisation metric is designed to check that flexibility is only being procured in situations where transformer utilisation is above, or projected to be above, 100%. There is no tolerance band.

3.25 We proposed to reduce the utilisation threshold from 100% to 90% and introduce a 25% tolerance band, as the current utilisation threshold may be inconsistent with DNOs' flexibility policies and risk appetite and constrain the opportunities to stimulate the market.

Longer-term forecasts (metrics 1, 2a, 2b, 3a 3b,3c and 3d)

3.26 Metric 1 currently assesses year-ahead transformer utilisation, while Metrics 2 and 3 rely on actual volumes of electric vehicles (EVs) and heat pumps. For metric 1 transformer utilisation is based on a forecast of the asset's utilisation for a Regulatory Year ahead, ie to the 31 March immediately after the annual RRP submission. For metrics 2 and 3 actual EV and HP volumes are used.

3.27 We proposed moving to the use of a longer-term 5 year rolling forecast.

Consultation responses

3.28 All six respondents supported the proposed changes to the SRVD metrics. UKPN, NGED, SSEN, SPEN and SP ENW welcomed the move to longer-term forecasts and wider tolerance bands, viewing these as essential to enabling strategic, anticipatory reinforcement of secondary networks.

3.29 SP ENW emphasised that the revised metrics better align with rising load growth and decarbonisation-driven demand, supporting proactive investment ahead of constraints and improved long-term efficiency for consumers.

Our decision

3.30 The SRVD metrics are an important protection for customers against unjustified or unnecessary costs arising from sub-optimal investment in the networks. We are therefore still minded to make changes to the SRVD metrics where necessary to ensure they are working effectively. However, we are also mindful that these have

only been in operation for two years. To make sure that there are no unintended consequences from changing these metrics prematurely, we will work with DNOs to continue to consider the proposed changes to the SRVD metrics. In considering options and potential changes to the SRVD metrics we will also seek to ensure a smooth transition to ED3, in relation to the build & flex principles described in the ED3 SSMD, including maximising the use of existing assets where possible. We propose to implement any changes to the SRVD Metrics though modifying the LRE Volume Drivers Governance Document later this year.

4. Next steps

This chapter sets out how we propose to implement our decisions.

LVSVD unit rates, LVSVD ex ante allowances and (for SP ENW only) SRVD cap

4.1 We propose to implement our decision to change the LVSVD unit rates, LVSVD ex ante allowances and, for SP ENW only, the SRVD cap by modifying SpC3.9 of the electricity distribution licence.

4.2 We have published notice of a statutory consultation on the proposed licence modifications alongside this decision document. Following the conclusion of that consultation, we plan to make decisions on the licence modifications in Summer 2026. If we make changes, these will come into force 56 days following our decision.

LRE Governance Document

4.3 We propose to implement our decisions to change the LVSVD Metric and any changes to the SRVD Metrics by modifying the LRE Volume Drivers Governance Document. We will consult on an updated LRE Volume Drivers Governance Document later this year. We will set out clearly in that consultation when any changes will take effect from.