

Decision

Modifying the RIIO-2 Electricity Distribution Price Control Financial Instruments

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This document confirms our¹ decision to approve the proposed modifications to the RIIO-2² Electricity Distribution Price Control Financial Instruments.

¹ References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

² This is the second electricity distribution price control using the Revenue = Incentives + Innovation + Outputs (RIIO) model.

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Background

- 1.1 On the 11 May 2026, we issued a consultation³ seeking views on proposed amendments to the ED2 Price Control Financial Instruments.
- 1.2 The proposed modifications address issues raised through the ED2 Price Control Financial Working Group.
- 1.3 We are issuing our decision under Special Condition 8.1 of the Electricity Distribution Licence in relation to the following Price Control Financial Instruments for Electricity Distribution licensees:
 - RIIO-ED2 Price Control Financial Model (PCFM), and
 - RIIO-ED2 Price Control Financial Handbook (PCFH)

Decision-making stages

- 1.4 The key stages of our decision-making process are summarised below:
 - **Stage 1** Consultation open: 11 May 2026
 - **Stage 2** Consultation closes. Deadline for responses: 8 June 2026
 - **Stage 3** Responses reviewed and further engagement with stakeholders (as applicable): 9 June 2026 to 11 June 2026
 - **Stage 4** Decision: 12 June 2026

Responses to Our Consultation

- 1.5 We received two responses to our consultation, both of which supported our proposed modifications.

³ [Proposal to modify the RIIO-2 Electricity Distribution Price Control Financial Instruments](#)

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Decision

- 1.6 We have decided to modify the ED2 Price Control Financial Instruments as set out in the Appendices to this Direction.
- 1.7 The modifications to the ED2 Price Control Financial Instruments will take effect on 1 July 2026.
- 1.8 Appendix 1 to this document contains the Direction setting out the changes made pursuant to the relevant Licence Condition.
- 1.9 If you have any questions regarding our decision, please contact david.simpson@ofgem.gov.uk

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

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Appendix 1. Decision Notice

SP Electricity North West Ltd (SPENWL)

Northern Powergrid (Northeast) Ltd (NPgN)

Northern Powergrid (Yorkshire) plc (NPgY) London

Power Networks plc (LPN)

South Eastern Power Networks plc (SPN) Eastern

Power Networks plc (EPN)

SP Distribution plc (SPD)

SP Manweb plc (SPMW)

Scottish Hydro Electric Power Distribution plc (SSEH)

Southern Electric Power Distribution plc (SSES)

National Grid Electricity Distribution (West Midlands) plc (WMID)

National Grid Electricity Distribution (East Midlands) plc (EMID)

National Grid Electricity Distribution (South Wales) plc (SWALES)

National Grid Electricity Distribution (South West) plc (SWEST)

(each one a "Licensee," and together, "the Licensees")

Direction under Part C of Special Condition 8.1 (Governance of the ED2 Price Control Financial Instruments) of the Electricity Distribution Licence to make modifications to the ED2 Price Control Financial Instruments

1. Each of the companies to which this direction is addressed (each "the Licensee") is the holder of an Electricity Distribution Licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989
2. Special Condition (SC) 8.1 (Governance of ED2 Price Control Financial Instruments) of the Electricity Distribution Licence provides that the Gas and Electricity Markets Authority (the Authority) may direct a modification to the ED2 Price Control Financial Instruments (the PCFI) where:

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- a. it becomes aware of a modification that will improve the functionality or clarity of the ED2 Price Control Financial Instruments; and
 - b. the modification will have no impact on the licensee's Allowed Revenue.
3. In accordance with Part B of SC 8.1, the Authority has assessed the likely impact of the proposed modifications to the PCFI. Having had regard to the views expressed by the RIIO-2 Price Control Financial Model Working Group, the Authority is satisfied that the proposed modifications reflect:
 - i. a consequential change required to the Price Control Financial Model (PCFM) following a recent modification to the Electricity Distribution Licence Special Conditions; and
 - ii. an improvement to the clarity of the RIIO-ED2 Price Control Financial Handbook (PCFH).

Accordingly, and in accordance with Special Condition 8.1.5, the Authority intends to modify the PCFI by direction.

4. In accordance with SC 8.1.7 the Authority hereby gives notice to the licensees addressed above that it proposes to modify the PCFI in the manner set out in the Appendices to this Notice.
5. On **11 May 2026** the Authority published the text of the proposed direction on its website and invited representations to be submitted by email to **david.simpson@ofgem.gov.uk** . The purpose of the proposed modifications is to reflect a consequential change required to the PCFM following a recent modification to the Electricity Distribution Licence Special Conditions and to improve the clarity of the RIIO-ED2 PCFH. The effects of the proposed modifications are described in the Appendices to this Direction.
6. The Authority received 2 representations in response to the consultation. The Authority has considered the representations received and has decided to proceed with making the direction.

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7. This direction constitutes the Authority's notice of reasons for the purposes of section 49A of the Electricity Act 1989.
8. The Authority hereby directs the modifications to the PCFI set out in the Annexes to this direction. Appendices 2 and 3 indicate the location of these changes within the Annexes. These modifications will come into effect on **01 July 2026**.

Mick Watson

Deputy Director, Regulatory Finance

Duly authorised on behalf of the Authority

12 June 2026

Appendix 2. Location of modifications within the Price Control Financial Model

Nature of Modification	Sheets	Reference
New row added under pass-through costs for Connections Reform Costs	Select Inputs/Input Summary/Licensee Input Sheets	Pass-through costs section

Appendix 3. Location of modifications within the Price Control Financial Handbook

Nature of Modification	Reference	Page number
New paragraph added outlining the procedure to be followed where the pensions model calculations indicate an expected surplus	Paragraph 7.47	59