



Response to the Ofgem RIIO-ED2 Load Related Expenditure volume drivers: statutory consultation

KEY POINTS

Northern Powergrid welcomes the opportunity to respond to Ofgem's statutory consultation decision on the Ofgem RIIO-ED2 Load Related Expenditure volume drivers.

We support Ofgem's proposed modifications to Special Condition (SpC) 3.9 of the electricity distribution licence, specifically:

- an upward revision to the Low Voltage Services Volume Driver (LVSVD) unit rates
- a higher LVSVD ex-ante allowance for all distribution network operators (DNOs)

While we do not oppose the proposed upward revision to the Secondary Reinforcement Volume Driver (SRVD) cap for SP Energy Networks, our principal concern is the underlying treatment of incremental costs for schemes with multiple drivers. Without consistent treatment, there is a material risk of distorted reporting, customer protection weaknesses, and reduced comparability in future ED3 benchmarking.

We therefore ask Ofgem to issue clear, formal RIGs guidance on the treatment of multi-driver schemes, asset movement reporting, capacity additions, and the prevention of double counting before these data are used for further RIIO-ED2 reporting or ED3 benchmarking.

2. Detailed responses to the three core proposals

1. This section of the consultation response sets out Northern Powergrid (Northeast) plc and Northern Powergrid (Yorkshire) plc's responses to Ofgem's three core proposals.

Upward revision to LVSVD unit rates

2. We support the upward revision to the LVSVD unit rates and agree with revised values of £1.44k for overhead line (OHL) services and £2.65k for underground (UG) services for Northern Powergrid Northeast and Northern Powergrid Yorkshire respectively.
3. We note several inconsistencies between the values presented in the published supporting decision document and those set out in the 'Notice of statutory consultation on a proposal to modify the special conditions of the electricity distribution licences'. For example, Table 1 (page 10) of the decision document records the OHL unit cost allowance for SWALES as £0.18k, whereas in the licence condition this is correctly reported as £0.35k. Similar discrepancies appear for other DNOs, with incorrect values shown in the decision document, although none directly affect Northern Powergrid.
4. We acknowledge the application of licence-specific regional uplifts following the calculation of the benchmark. This approach appears consistent with the RIIO-ED2 Final Determinations; however, we are unable to verify the uplifts given the inconsistencies highlighted in point 3 above. The regional adjustment does not affect NPg.

Higher LVSVD ex-ante allowance

5. We agree with the proposed higher LVSVD ex-ante allowance and agree with revised values of £24.80m for Northern Powergrid Northeast and £42.04m for Northern Powergrid Yorkshire respectively.
6. We acknowledge the updated calculations to reflect NPg's post-CMA ex ante allowance values and the corresponding implied FD volumes.
7. We agree with the decision not to adjust years three to five volume values by scaling them to be in line with the percentage of volumes delivered in years one and two for the sector, as was the method used in the draft consultation. No reason has been provided in the decision document for the change in method, but we consider this approach appropriate if the intention is to establish a recalibrated ex-ante allowance rather than a mid-period forecast.
8. We acknowledge the inclusion of cut outs and fuses within the re-calculated ex-ante allowances.
9. We agree with the decision not to change the LVSVD cap.

Upward revision of SRVD cap for one DNO

10. We are not opposed to increasing the SRVD cap for SP Energy Networks, but we have reservations regarding the cost drivers that underpin the proposed change. In our consultation response, we highlighted concerns with cost allocations referenced by SP Energy Networks in its re-opener application, specifically the practice of disaggregating the cost and volumes of discrete assets across multiple reporting tables.
11. The decision document states that upsizing interventions should be progressed through the volume driver mechanisms. This approach creates specific reporting risks, including double counting asset movements or recording capacity additions without the corresponding asset movement, and we categorically do not follow this approach at NPg.
12. This point has not been addressed in the decision document and, while Ofgem has informally recognized our concerns, definitive guidance through the Regulatory Instructions and Guidance (RIGs) is required to ensure consistent and accurate reporting across the industry.
13. DNOs are currently adopting different approaches, which will affect not only RIIO-ED2 reporting and performance within the CVR suite, but also in-period allowances, benchmarking, and ultimately the ED3 price control determination.

Other considerations

14. We acknowledge and welcome Ofgem's correction within the decision document that all DNOs responded to the November 2025 Request For Information (RFI).
15. We support increasing the LVSVD metric tolerance from 20% to 40% and welcome the clarification that performance will be assessed over the full RIIO-ED2 period, rather than annually.
16. We have not reported any material issues with the SRVD unit rates and therefore agree with the Ofgem proposal not to make any changes at this time.
17. We support Ofgem's minded-to position that changes to the SRVD metrics are necessary to ensure their effectiveness, and we welcome the opportunity to work collaboratively with Ofgem, through the DNO working group, to consider and develop proposed improvements.
18. We are more than happy to continue to work with Ofgem through the DNO working group to ensure the SRVD metrics operate as intended and protect customers against costs arising from sub-optimal investment.
19. In summary, Northern Powergrid supports the proposed LVSVD changes and does not oppose the specific SRVD cap adjustment, but asks Ofgem to provide formal RIGs guidance now to remove ambiguity, protect customers, and preserve robust comparability for ED3 benchmarking.