

Decision

RIIO-ED2 Re-opener Applications 2025 Decision – ESR Re-opener

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This document sets out our Final Determinations following our assessment of the application submitted by SP Energy Networks (SPEN) under the Special Conditions 3.2 Part D (Electricity System Restoration) Re-opener in June 2025. We¹ consulted on our proposed position between 18 May 2026 and 22 June 2026 where we proposed allowing £63.512m of the requested £65.244m and asked stakeholders a number of questions. We received and have taken into account two responses. Our Final Determinations on the allowances for 2025 ESR Re-opener are for £63.512m for RIIO-ED2.

We have published a direction in Appendix 1 of this document to amend the licences of SP Manweb and SP Distribution to give effect to this Final Determination to fund the ESR initiatives approved in our decision. We are also publishing a statutory consultation on proposed licence modifications to give effect to proposed Price Control Deliverables (PCDs) associated with SPEN's ESR Re-opener.

¹ The terms 'the Authority', 'Ofgem', 'we' and 'us' are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

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1. Introduction

- 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. This is particularly important in the case of essential utilities, such as energy, where consumers have no choice on whether to pay what they are charged. It is therefore crucial that an effective regulator protects energy consumers by controlling how much network companies can charge their customers. Ofgem does this through periodic price controls that are designed to ensure network companies are properly incentivised to deliver the best possible outcomes for current and future energy consumers. This includes ensuring that consumers only pay for investments that are needed and do not overpay for those investments.
- 1.2 The current price control model is known as RIIO (Revenue = Incentives + Innovation + Outputs). RIIO-ED2 is the second price control under the RIIO model for electricity distribution and runs from 1 April 2023 until 31 March 2028. It includes a range of Uncertainty Mechanisms (UMs) that provide additional funding during RIIO-2 as the need, cost or timing of proposed projects becomes clearer. This ensures that consumers fund projects only when there is clear evidence of benefit, and we have clarity on likely costs and cost efficiency. These mechanisms also ensure that the RIIO-ED2 price control has flexibility to adapt as the pathways to Net Zero become clearer.
- 1.3 Where possible, we have set automatic UMs, known as Volume Driver mechanisms, such as the Load Related Expenditure Volume Drivers, which provide network companies with immediate funding when they are required to undertake new customer connection works. In other areas, where the degree of uncertainty is too great to allow for an automatic mechanism, we set ‘re-openers’ which will allow us to assess proposals robustly once information with sufficient accuracy is made available.

Purpose of this re-opener mechanism

- 1.4 Special Condition (SpC) 3.2.21 of the electricity distribution licence sets out that the Electricity System Restoration (ESR) Re-opener may be used where there has been a change to the Electricity System Restoration Scope of Work and the licensee has incurred or expects to incur additional costs associated with such changes. These changes have been agreed with the Independent System Operator and Planner (ISOP), in this case National Energy System Operator (NESO), in order to assist them to meet its obligations to comply with the target Restoration Times,

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as set out in the Electricity System Restoration Standard (ESRS).² This can include, but is not limited to, changes to Distribution Code obligations which relate to the ESRS, or new obligations set out in distribution restoration contracts.

- 1.5 The purpose of this re-opener mechanism is to allow for adjustment of Distribution Network Operators (DNOs)' ESR baseline allowances where the NESO requires DNOs to undertake additional activities to ensure that the ESRS can be met.
- 1.6 The original re-opener window was June 2024, but we directed two additional re-opener application windows under SpC 3.2.22(b) for June 2025 and June 2027.

Related publications

- 1.7 Other previously published closely related documents are:
- [RIIO-ED2 Final Determinations | Ofgem](#)
 - [Re-opener Guidance and Application Requirements | Ofgem](#)
 - [RIIO-ED2 SPEN Final Determinations](#)
 - SpCs (particularly SpC 3.2 Part D) of the [Licence](#)
 - [SPEN's ESR Re-opener application published version](#)

Our decision-making process

- 1.8 The decision-making stages are detailed below:

Stage 1 Consultation open: 18 May 2026

Stage 2 Consultation closes: 22 June 2026

Stage 3 Responses reviewed and published: 2 October 2026

Stage 4 Consultation outcome (decision or policy statement): 2 October 2026

Send us your feedback

- 1.9 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:

² [Introducing a new 'Electricity System Restoration Standard': policy statement - GOV.UK](#)

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- 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

2. Electricity System Restoration Re-opener

What did we consult on?

- 2.1 In the June 2025 re-opener window, SP Energy Networks (SPEN) applied on behalf of its SP Distribution plc (SPD) and SP Manweb plc (SPM) licensees for additional RIIO-ED2 funding under the ESR Re-opener mechanism. SPEN applied for £65.244m related to seven different initiatives. We consulted on our assessment of SPEN's ESR Re-opener application for its proposed investment in both its SPD and SPM licensee areas.
- 2.2 Following these submissions in June 2025, the licensees also provided additional information to us through a combination of bilateral meetings and responses to Supplementary Questions (SQs).
- 2.3 We considered each proposal and the relevant justification for the funding requested in accordance with our principal objective and statutory duties. In line with the [Re-opener Guidance and Application Requirement Document](#), our assessment covered the following three areas for each project:
- the needs case
 - the options assessment and the justification for the proposed project
 - the efficient costs for the proposed project
- 2.4 We considered all relevant information in formulating our Draft Determinations (DDs) including the levels of additional allowances, if any, that should be provided to each licensee to undertake the relevant projects.
- 2.5 We consulted on our DDs between 18 May 2026 and 22 June 2026, as well as drafts of the direction that would be used to implement the DDs. We received two responses from SPEN and National Grid Electricity Distribution (NGED) respectively.

Purpose of this document

- 2.6 This document summarises the consultation responses received from stakeholders, and an explanation of the changes made, if any, to our DD positions since the consultation. It also sets out our decision for these applications submitted under the ESR Re-opener.
- 2.7 We have published a direction in Appendix 1 of this document to amend the licence of SPM and SPD and give effect to the additional allowances approved in our decision. We are also publishing a statutory consultation on proposed licence

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modifications to give effect to proposed Price Control Deliverables (PCDs) associated with SPEN's ESR Re-opener.

3. Our assessment of SPEN’s ESR Re-opener application

Summary of our Draft and Final Determinations

3.1 Table 1 below highlights summaries of our Draft and Final Determinations.

Table 1: Summary of SPEN’s ESR initiatives RIIO-ED2 Draft and Final Determinations (£m, 2020/21 prices)³

Initiatives	Company requested - Forecast costs (£m)	Ofgem’s DD - Cost adjustment (£m)	Ofgem’s DD - Allowances (£m)	Ofgem’s Adjustment from DD to FD (£m)	Ofgem’s FD – Allowances (£m)
Initiative 1 - 132Kv Network Resilience	3.904	0.00	3.904	0.00	3.904
Initiative 2 – Primary Substations Network	5.998	0.00	5.998	0.00	5.998
Initiative 3 – Substation Telecommunication s Resilience	8.295	1.563	6.732	0.00	6.732
Initiative 4 – DRZ – Central Scotland	14.975	0.00	14.975	0.00	14.975
Initiative 5 – DRZ – Dumfries and Galloway	3.940	0.00	3.940	0.00	3.940
Initiative 6 – DRZ - Fife	18.925	0.00	18.925	0.00	18.925
Initiative 7 - Staff Resources	9.207	0.169	9.038	0.00	9.038
Total	65.244	1.732	63.512	0.00	63.512

³ Figures are presented in £m and rounded to three decimal places; totals may not sum exactly due to rounding.

Our Draft Determinations

- 3.2 We consulted on our Draft Determinations of SPEN's ESR Re-opener application submitted in June 2025, which sought £65.244m of additional RIIO-ED2 funding across seven initiatives. These initiatives are intended to ensure compliance with the updated ESRS, including enhancements to network and telecommunications resilience to enable operation for up to five days, the establishment of Distribution Restoration Zones (DRZs), and the provision of supporting operational resources.
- 3.3 In that consultation, we proposed to allow £63.512m of funding. Stakeholders were invited to provide views on our assessment of the needs case, optioneering and cost efficiency, including our approach to limiting funding where proposals exceed current obligations and our intention to introduce PCDs to link funding to the timely and effective delivery of outputs.
- 3.4 All additional evidence submitted by SPEN and other stakeholders during that period has been carefully considered and reflected in our Final Determinations. We have published the non-confidential responses to the consultation alongside this document.

Responses to our Draft Determinations

- 3.5 We received two responses, from SPEN and NGED, respectively.
- 3.6 Both respondents stated their support for our Draft Determinations. Both agreed with the needs case for investments in asset resilience, DRZs and operational resources.
- 3.7 NGED also stated that it supported Ofgem's cost assessment and high-level allowances but noted it had not reviewed SPEN's Engineering Justification Papers (EJPs) and therefore could not assess detailed cost components. It did state its support for increasing telecommunications resilience to 120 hours to align with the five-day restoration requirement, while acknowledging the proposed position of excluding the SPEN sites already meeting the 72-hour standard.
- 3.8 SPEN stated that it recognised the role of PCDs in providing assurance to consumers but considered that, given the limited remaining RIIO-ED2 timeframe and the complexity and interdependencies of ESR interventions, a rigid or binary PCD framework risked unintended delivery issues and inefficient outcomes, and therefore a more proportionate and nuanced approach was needed.
- 3.9 SPEN also stated that PCDs for DRZs should adopt a staged or milestone-based approach reflecting delivery complexity, and that for network resilience initiatives, PCDs should focus on volume-based delivery (e.g. number of sites upgraded) rather than full site compliance, to ensure accountability while recognising external dependencies outside licensees' control such as telecommunications interfaces or protection system dependencies.

- 3.10 Finally, SPEN noted minor inconsistencies within the numerical tables of Ofgem’s Draft Determination and Appendix 1, including discrepancies in cost totals and a typographical error in the ESRt term for 2025/26.

Our Final Determinations

- 3.11 Our Final Determinations are to approve the allowances proposed in our consultation of £63.512m from the total of £65.244m. Having carefully considered all stakeholder responses, we have reconciled the minor inconsistencies and decided to proceed with making our final decision as set out below.
- 3.12 We will retain the consultation position in our Draft Determination as no new appropriate evidence has been provided that justifies a change. The stakeholder responses both agreed with our positioning regarding the needs case and optioneering of the proposed initiatives by SPEN.
- 3.13 We maintain our position to partially approve the needs case for Initiative 3 proposed by SPEN to install 120-hour resilience as opposed to the coded 72-hour requirement. We are disallowing the 178 sites included within SPEN’s requested volumes for Initiative 3 where the existing telecommunication resilience is greater than 72 hours.

PCDs

- 3.14 Regarding the response that a rigid PCD framework risks unintended delivery issues and inefficient outcomes, the aim of the proposed PCD is to ensure that the initiatives are delivered in the timeframe that SPEN has proposed and we have approved and that they are delivered to the full requirements to justify the costs that SPEN have asked for.
- 3.15 While we acknowledge SPEN’s considerations on PCDs above, we remain of the view that PCDs are an appropriate mechanism to provide assurance that the funded outputs are delivered within the timeframes proposed by SPEN and approved by Ofgem. PCDs also help ensure that the approved activities are delivered to the required standards and outputs that underpin the allowances awarded through this Re-opener. To allow SPEN’s proposed approach to PCDs would not be in the best interests of the consumer.

Cost assessment

- 3.16 We maintain our decision to allow £63.512m of SPEN’s £65.244m ESR Re-opener application. We consider the proposed expenditure to be largely justified, efficient and necessary to meet the revised ESRS and associated licence obligations. Accordingly, we decided to approve the costs associated with network resilience, primary substation resilience, DRZs, and associated staffing requirements, subject to the implementation of PCDs.

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3.17 However, we have decided to apply a total cost adjustment of £1.732m, comprising of a £1.563m reduction to Initiative 3 and a consequential £0.169m reduction to Initiative 7, as stated in Table 1 above. While we recognise the benefits of SPEN’s proposed 120-hour resilience approach, the re-opener should only fund the minimum investment required to meet current coded obligations. We therefore decided to exclude 178 substations that already meet the existing 72-hour telecommunications resilience requirement, with any further enhancements to be considered under ED3. This results in an allowance of £63.512m.

4. Next Steps

- 4.1 We have considered all consultation responses and concluded our assessment of the ESR Re-opener.
- 4.2 To give effect to our Final Determinations, we have published a direction alongside this decision to modify the ESRt term in SPEN's electricity distribution licence. This direction is in Appendix 1 of this document and comes into effect immediately.
- 4.3 We are also publishing a consultation on our proposed PCDs relating to the allowances we have determined under ESR Re-opener mechanisms.

Appendices

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1	Direction for Electricity System Restoration Re-opener	15

Appendix 1. Direction for Electricity System Restoration Re-opener

To: SP Distribution plc, SP Manweb plc

Direction issued by the Gas and Electricity Markets Authority (“the Authority”) under Special Condition (“SpC”) 3.2 Part D of the Electricity Distribution Licence (“the Licence”) held by SP Distribution plc and SP Manweb plc (“the Licensees”) to modify the value of licence term ESRt.

1. The Licensees are the holders of a licence granted or treated as granted under section 6(1)(c) of the Electricity Act 1989.
2. SpC 3.2 Part D: Electricity System Restoration Re-opener of the Licence provides a mechanism by which the licensee may apply for a direction modifying the value of term ESRt in SpC 3.2 Appendix 1.
3. In June 2025, the Licensees submitted a re-opener application under SpC 3.2 Part D for a modification to the term ESRt.
4. Further details of the reasons for and effect of this direction can be found in our decision document published alongside this direction.
5. The Authority hereby issues a direction under SpC 3.2.27 and SpC 3.125 to modify the ESRt term in SpC3.2 Appendix 1 as follows:

To: SP Distribution plc

Appendix 1

Uncertain Costs allowances (£m)

	23/24	24/25	25/26	26/27	27/28	Total allowance (all years)
PSUP _t	0	0	0	0	0	0
REC _t	0	0	0	0	0	0
ESR _t	0	0	0	0	0	0
			<u>8.106</u>	<u>19.672</u>	<u>21.877</u>	<u>49.654</u>

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EVR _t	0	0	0	0	0	0
SWR _t	0	0	0	0	0	0
DIGI _t	0	0	0	0	0	0
LRE _t	0	0	0	0	0	0
HVP _t	0	0	0	0	0	0
WDV _t	0	0	0	0	0	0
HO _t	0	0	0	0	0	0
SES _t	0	0	0	0	0	0
SEFEC _t	0	0	0	0	0	0

New text is double underscored, and text removed is double struck through.

To: SP Manweb plc

Appendix 1

Uncertain Costs allowances (£m)

	23/24	24/25	25/26	26/27	27/28	Total allowance (all years)
PSUP _t	0	0	0	0	0	0
REC _t	0	0	0	0	0	0
ESR _t	0	0	0	0	0	0
			<u>0.113</u>	<u>6.413</u>	<u>7.332</u>	<u>13.858</u>
EVR _t	0	0	0	0	0	0
SWR _t	0	0	0	0	0	0
DIGI _t	0	0	0	0	0	0
LRE _t	0	0	0	0	0	0
HVP _t	0	0	0	0	0	0

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WDV _t	0	0	0	0	0	0
HO _t	0	0	0	0	0	0
SES _t	0	0	0	0	0	0
SEFEC _t	0	0	0	0	0	0

New text is double underscored, and text removed is double struck through.

6. This direction will take effect immediately.

7. If you have any questions in relation to this direction, please contact:

ReopenerConsultations@ofgem.gov.uk.

Yours sincerely,

James Veaney

Deputy Director, Price Controls

Duly authorised on behalf of the Gas and Electricity Markets Authority

2 October 2026