

4 December 2025

# **RIIO-3 FINAL DETERMINATIONS**

INITIAL REVIEW

## INTRODUCTION



Ofgem's final determinations (FDs) for gas distribution (GD), gas transmission (GT) and electricity transmission (ET) will determine revenue allowances for the RIIO-3 control period, covering 1<sup>st</sup> April 2026 to 31<sup>st</sup> March 2031. Over this period, ET companies face the challenge of upgrading their networks to support the goal of clean power by 2030, while the gas sector will need to attract the investment needed to maintain safe and secure networks while facing the prospect of a declining customer base.

The FDs follow July's draft determinations (DDs), which imposed significant disallowances to networks' business plan (BP) costs – at 25% in aggregate and ranging from 15% to 39% across companies. At FDs, Ofgem has mitigated these disallowances and increased the scope for future increases in revenue allowances.

In some cases, Ofgem accepts additional evidence from companies in support of their cost submissions. In others, Ofgem makes methodological adjustments, while maintaining its overall approach. In several instances, however, increases in allowances are the result of corrections to Ofgem's calculations – a regrettable repeat of some of the errors that characterised the process at RIIO-2.

Finally, Ofgem acknowledges concerns about the impact of higher charges on customers and suppliers, but applies only a minor reprofiling of costs towards the back of the five-year period to address them. It does so alongside an increase in aggregate allowed revenues over the same period due to higher allowances compared to at DD.

### OUR FINDINGS

Overall, Ofgem's FD approach represents an evolution of the methodology used at DDs which mitigates, but does not eliminate, the significant gap between companies and the regulator. In some areas Ofgem has made sensible changes to its approach in response to points raised by companies. In other areas such as ongoing efficiency, however, the regulator's approach remains highly questionable.

1

**Total sector baseline cost allowances are £28bn, representing a 17% uplift since DD but still leaving a 15% gap versus companies' requests**



Compared to DD, allowed costs have increased in all three sectors. The largest

change is for GT, but a material gap still remains.

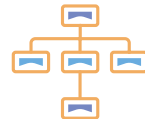
In ET, the increased costs mainly arise from greater reliance on forecast data and higher weight placed on individual company conditions.

Around half of the cost increase in GT comes from non-load capex following additional evidence submitted by the company. The change in GD costs is in part due to the rectification of an error in Ofgem's modelling.

Ongoing efficiency (OE) remains at 1% despite significant pushback from companies.

2

**Ofgem has increased the scope of its Uncertainty Mechanisms (UMs) and associated allowances**



Ofgem has increased the value of several use-it-or-lose-it (UIOLI) mechanisms; broadened

the scope of re-openers; and added several new cost pass-throughs. Together, this significantly increases the potential funding that may be available to companies over RIIO-3. For instance, allowances for transmission owners (TOs) increase relative to baseline by £7.4bn to £17.7bn, after accounting only for ex ante funding available via UMs.

In addition, changes to the approach to applying RPE adjustments increases the responsiveness of the price control to evolving cost structures.

While Ofgem has tweaked various elements of the ODI framework, this broadly remains the same as at DD.

3

**On finance, Ofgem has made few changes to DDs, with differences primarily driven by movements in market data**



Ofgem has maintained the changes in approach set out at DD, including

the introduction of a semi-nominal WACC to provide a nominal allowance for fixed rate debt and different cost of debt allowances for gas and electricity networks, reflecting divergence between the sectors.

Compared to DDs, Ofgem's allowed rate of return is higher for gas networks and lower for ET, driven by the cost of debt.

- For GD/GT, Ofgem sets a WACC of 4.34% (CPIH real), compared to 4.22% at DDs.
- For ET companies, Ofgem's WACC is 4.42%-4.66% (CPIH real), compared to 4.49%-4.70% at DDs.



# 1. COSTS



1

**Total sector baseline cost allowances are £28bn, representing a 16% uplift since DD but still leaving a 15% gap versus companies' requests**

**Table:** Submitted, DD and FD baseline totex allowances (£m, 2023/24 prices)

Company	BP submitted	Post-DD submitted	Ofgem DD*	Increase from DD to FD (%)	Ofgem FD	Difference (submitted v. Ofgem FD, %)
Cadent	8,020	8,245	6,283	14%	7,136	-13%
NGN	1,837	1,848	1,568	6%	1,660	-10%
SGN	4,546	4,722	3,430	17%	3,998	-15%
WWU	2,190	2,211	1,502	18%	1,779	-20%
<b>Total (GDs only)</b>	<b>16,593</b>	<b>17,026</b>	<b>12,783</b>	<b>14%</b>	<b>14,573</b>	<b>-14%</b>
NGT	4,054	4,054	2,456	30%	3,192	-21%
NGET	5,827	5,706	4,155	18%	4,884	-14%
SHET	4,141	4,026	3,096	10%	3,416	-15%
SPT	2,071	2,224	1,558	28%	1,997	-10%
<b>Total (ETs only)</b>	<b>12,039</b>	<b>11,955</b>	<b>8,810</b>	<b>17%</b>	<b>10,297</b>	<b>-14%</b>
<b>Total</b>	<b>32,686</b>	<b>33,035</b>	<b>24,049</b>	<b>17%</b>	<b>28,062</b>	<b>-15%</b>

#### Key changes since DD:

- Allowed baseline costs across the three sectors have increased by £3.9bn compared to DD. At the same time, companies' submitted costs have slightly increased, marginally offsetting the extent to which the DD cost gap has closed.
- NGT sees the largest proportional increase in costs since DD, by 30%, but still has the largest gap between business plan and allowed costs.
- Aside from NGT, the companies with the largest uplift in allowed costs are SPT (28%) and WWU (18%).
- Cross-cutting areas of Ofgem's cost assessment (engineering justification papers and ongoing efficiency) are largely unchanged from DD. As such, the variation in allowed costs primarily arises from the individual assessment of cost categories, detailed on the following slides.

**Source:** Economic Insight analysis of RIIO-3 DD and FD overview documents.

*Note: \*The Ofgem DD allowances for ETs reported here differ from those in the DD publications due to corrections made by Ofgem.*



## Ofgem has not changed its position on ongoing efficiency (OE), applying an OE challenge of 1% per year across all three sectors

### The approach to estimating the OE range is almost entirely unchanged since DD, and dismisses arguments raised by companies

- Grant Thornton has provided an updated report on OE. It considers the points raised by the companies (which viewed 1% as too high) but ultimately rejected them.
- The only methodological change is that the time period over which productivity is calculated now includes 2008 and 2009 – the global financial crisis years. However, this has no impact on the range of Grant Thornton’s OE estimates (0.1%-1.3%).
- As such, Ofgem’s final OE figure remains skewed towards the top end of the range recommended by its expert advisors.
- Ofgem dismisses criticism of its choice of comparator sectors and associated weightings from which historical productivity growth is estimated.
- Ofgem also dismisses all criticisms of its process for selecting the range and point estimate for its OE target, maintaining that 1% reflects a balanced view of the evidence.

### Ofgem has explicitly dismissed the CMA’s view on OE in the water sector redeterminations

- Ofgem provides a cursory discussion of the CMA’s PR24 OE decision, but dismisses it. This is despite Ofgem’s heavy reliance on historical regulatory precedent to justify its target.
- The CMA’s approach used economy-wide forecasts of productivity. Ofgem did not consider this applicable to energy networks for reasons that are poorly evidenced:
  - First, it considers it cannot rely on the analysis the CMA used to conclude that water productivity growth tracked the wider economy, nor reproduce it for the energy sector. This is despite previously arguing that *regulated sectors* faced similar scope for productivity growth. It then relies on an unsubstantiated belief that energy networks are capable of higher productivity growth than other regulated sectors and the UK average.
  - Second, it states that forecasts cannot be relied upon compared to historical data since they are subject to revisions over time. But this conflicts with its approach to other parameters (see Finance section) and ignores the fact the historical data is also subject to revisions. Moreover, forecasts themselves are informed, to a degree, by historical data such as that which Ofgem has relied upon.
  - Ofgem also suggests the CMA’s decision is not relevant precedent since it is provisional and subject to change at its FDs.
- We note that in reaching this view, Ofgem acknowledges but does not account for the OBR’s recent downgrading of its productivity growth forecasts.



## ET: Ofgem's allowed costs are 14% lower than requested, but 17% higher than it set at DD

**Table:** ET sector submitted, DD and FD baseline totex allowances (£m, 2023/24 prices)

	BP submitted (£m)	Post-DD submitted (£m)	Ofgem DD (£m)	Ofgem FD (£m)	Difference (submitted v. Ofgem FD, £m)	Difference (submitted v. Ofgem FD, %)
Load and non-load capex	3,878	3,949	2,916	3,416	-532	-13%
Non-operational capex	1,362	1,166	1,138	1,063	-103	-9%
Network operating costs	2,334	2,301	1,515	1,875	-426	-19%
Indirect costs	3,713	3,813	2,812	3,461	-352	-9%
Other costs	752	726	428	481	-245	-34%
<b>Total</b>	<b>12,039</b>	<b>11,955</b>	<b>8,810</b>	<b>10,297</b>	<b>-1,658</b>	<b>-14%</b>

**Source:** Economic Insight summary of Ofgem's RIIO-3 DD ET Annex (Tables 10, 11, 12, 13, 14, 16, and 17) and RIIO-3 FD ET Annex (Tables 12, 15, 16, 17, 19, 21, and 22).

*Notes: There are differences in the submitted and Ofgem DD baseline totex allowances across the FD and DD publications due to error corrections and further adjustments to the data.*

### Key Points:

The overall increase in FD baseline totex is mainly driven by **higher reliance on forecast data** and **higher weight placed on individual conditions and challenges** faced by TOs. The following cost areas see significant increases:

- **Network operating costs** (£360m increase). The increase is primarily due to changes to the quantitative assessment. For assets where RIIO-ET3 submitted costs are greater than modelled costs based on RIIO-ET2, Ofgem has switched to an annual average unit cost (from an annual average cost) approach and has removed the arbitrary £1m threshold.
- **Indirect costs** (£649m increase). The increase is due to changes in Ofgem's cost assessment approach. Ofgem continues to set allowances for Closely Associated Indirects (CAI) and Business Support Costs (BSCs) based on an average of two approaches ("historical" and "forecast"), but it has increased the weight on its forecast method to 70% (from 50% at DD). Ofgem has also made significant changes to its historical BSC regression, dropping GT data and accepting company-submitted employee volume data (rather than relying on its own, lower estimate of volumes).
- **Load and non-load related capex** (£501m increase). The increase is mainly driven by the inclusion of more schemes, improvements against benchmarks, and expansion of the scope of qualitative assessments.



## GT: Ofgem has allowed an additional £736m since DD but this is still 21% less than National Gas Transmission requested (compared to 39% at DD)

**Table:** GT sector submitted, DD and FD baseline totex allowances (£m, 2023/24 prices)

	BP submitted (£m)	Post-DD submitted (£m)	Ofgem DD (£m)	Ofgem FD (£m)	Difference (submitted v. Ofgem FD, £m)	Difference (submitted v. Ofgem FD, %)
Load and non-load capex	1,424	1,421	641	1,017	-404	-29%
Non-operational capex	545	545	302	425	-120	-22%
Network operating costs	445	445	415	415	-30	-7%
Indirect costs	936	940	632	802	-138	-15%
Other costs	703	703	466	533	-171	-24%
<b>Total</b>	<b>4,054</b>	<b>4,054</b>	<b>2,456</b>	<b>3,192</b>	<b>-863</b>	<b>-21%</b>

**Source:** Economic Insight summary of Ofgem's RII0-3 DD GT Annex Table 6 and Ofgem's RII0-3 FD GT Annex Table 6.

*Notes: National Gas Transmission's submitted costs have changed slightly since the DDs, reflecting updates to the Western Imports Resilience Project costs, and changes to non-load related capex and indirect costs as a result of corrections of volume and unit costs.*

### Key Points:

The increase in National Gas Transmission's (NGT's) allowances from Ofgem's DD is mainly driven by changes in three areas:

- **Non-load related capex** (£355m increase). This is largely driven by a £326m increase in Ofgem's allowance for asset health, following significant engagement with NGT which provided more evidence to support its requests.
- **Indirect costs** (£170m increase). Ofgem retained its DD approach to 'core' CAI, but increased its allowances for some smaller categories of separately assessed CAI. It has accepted NGT's concerns with its DD regression approach for BSCs, including that the approach: (a) assumed intrinsic differences between ET and GT; (b) effectively benchmarked NGT against its historical costs, rather than considering cross-sectoral performance; and (c) did not account for NGT's separation from National Grid. As a result, Ofgem revised its approach for BSCs to use a new "trend model", which employs both historical and forecast data and appears to be based on its CAI approach.
- **Non-operational capex** (£123m increase). The increase is entirely in the allowance for IT&T expenditure and results from resubmitted information and supporting evidence by NGT. In Ofgem's view, this strengthened the economic case for the expenditure (as well as cost certainty), resulting in higher scores in Ofgem's assessment framework and therefore leading to higher allowances.



## GD: Allowed costs for GDNs are 14% below companies' requests (compared to 23% below requests at DD)

**Table:** GD sector submitted, DD and FD baseline totex allowances (£m, 2023/24 prices)

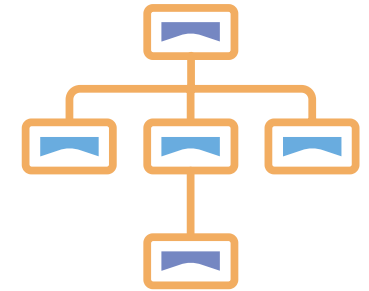
	BP submitted (£m)	Post-DD submitted (£m)	Ofgem DD (£m)	Ofgem FD (£m)	Difference (submitted v. Ofgem FD, £m)	Difference (submitted v. Ofgem FD, %)
Benchmarked costs	13,952 <sup>1</sup>	14,735 <sup>2</sup>	12,160 <sup>3</sup>	13,423 <sup>4</sup>	-1,312	-9%
Non-regression costs	1,689 <sup>5</sup>	1,577 <sup>6</sup>	948 <sup>6</sup>	1,323 <sup>6</sup>	-253	-16%
Technically assessed costs	833 <sup>7</sup>	1,024 <sup>8</sup>	430 <sup>8</sup>	705 <sup>8</sup>	-319	-31%

**Source:** 1. Ofgem DD GD Annex Table 20; 2. Ofgem FD GD Annex Table 17; 3. Estimated using Ofgem DD GD Annex Table 20, 21 and 28; 4. Estimated using Ofgem FD GD Annex Table 17 and 18; 5. Ofgem DD GD Annex Table 28; 6. Ofgem FD GD Annex Table 32; 7. Ofgem DD GD Annex Table 29; 8. Ofgem FD GD Annex Table 33.

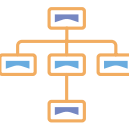
### Key Points:

- **Correcting errors in the DD models has led to a £303m increase in allowed industry totex.** Ofgem states that the increase results from mechanistically correcting inaccuracies in the DD models, rather than updates to the methodology or policy proposals.
- **Resubmissions by GDNs have led to a £433m increase in allowed industry totex.** These resubmissions cover cost changes for repex programmes as a result of: (a) HSE driven changes; (b) revisions to historical submitted values after original BPDT submissions; and (c) data updates provided in response to Ofgem's questions.
- **Ofgem has changed its approach to the pre-modelling urbanity adjustment,** but made few other changes to its regression analysis. It has replaced the separate labour productivity and reinstatement adjustments with a single 'Nature of Streets adjustment', as proposed by Cadent, and applied to both Cadent and SGN.
- **Ofgem has now granted allowances of £85m for Tier 1 Iron Stubs workloads.** Ofgem's DD excluded these due to its concerns over unit cost consistency. Ofgem now sets allowances by applying an "efficiency benchmark approach" to company submitted data.
- **Other changes largely reflect Ofgem accepting further engineering evidence on specific cost categories,** including allowing increases of £160m for SGN's multiple occupancy building allowance and £160m for Cadent's repex diversion allowance.

*Notes: Ofgem does not report its benchmarked costs directly in its DD or FD documents. We estimate Ofgem's FD benchmarked costs by taking the post-DD submitted values and netting off Ofgem's FD reported pre-modelling and benchmark modelling cost adjustments (which we understand represent the extent to which Ofgem reduced company submitted benchmarked cost estimates). We estimate Ofgem's DD benchmarked costs in two steps. First, we estimate the extent to which Ofgem reduced company submitted benchmarked cost estimates by taking its overall reported totex adjustment (across all cost categories) and netting off its reported adjustments for the other two cost categories (non-regression costs and technically assessed costs). We then subtract our estimated adjustment from the BP submitted values.*



## 2. INCENTIVES AND UNCERTAINTY MECHANISMS



2

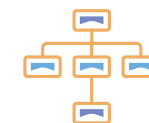
Compared to DDs, Ofgem places greater reliance on UMs, particularly UIOLIs and re-openers, increasing the potential funding available to companies

### Ofgem has retained its suite of Uncertainty Mechanisms (UMs) from DDs, but with some adjustments at FD:

- Ofgem has increased the funding available via UMs significantly. It has **increased allowances** (particularly for ET companies), **under several use-it-or-lose-it (UIOLI)** mechanisms. In addition, it has **broadened the scope of multiple re-openers**, such as for Asset Health and Specified Streetworks costs.
- As such, **reported baseline totex allowances are not reflective of the total potentially available funding available to companies** over RIIO-3. For instance, once all ex ante allowances available via uncertainty mechanisms are included, the overall ex ante funding for TOs alone increases by £7.4bn to £17.7bn.
- For company-triggered re-openers, Ofgem **has standardised re-opener windows** such that they only occur only during two, one-week windows each year, in April and October.
- **By default, RPEs will not apply to re-opener mechanisms.** However, RPEs will be applied for re-openers where typical projects are expected to involve infrastructure investment with 3-4 year construction phases (including for the cross-sector Decarbonisation and Environmental Policy (DEP) Re-opener).

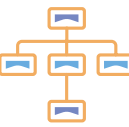
### Ofgem has finalised its plans to use a two-part approach to Real Price Effects (RPEs):

- As per the DD, Ofgem will set **ex ante adjustments** for RPEs for all companies, based on forecasts of input price indices. **Ex post adjustments** will be made annually to “true up” any out-turn differences between CPIH and input price indices.
- Also as per the DD, RPEs will cover labour and materials for all companies; and plant and equipment for SHET and NGET. Despite responses from Cadent and SGN, **Ofgem will not add plant and equipment for GDNs**, as this cost category is not expected to exceed 10% of totex in any year (*though it does come close, with a share of 9.6% at DD*).
- As per DD, cost categories will be weighted by their share of efficient costs, with individual indices within these categories then treated equally. However, compared to DD:
  - **Ofgem has decided to profile cost category weights over the price control period** (rather than keep them static), to reflect that cost structures are expected to evolve over time.
  - The **Timber index has been removed** for GDNs and **2 indices have been added** (BEAMA Industrial Electronics and Large Power Transformer) **for NGET**.



## Key cross-sector UM changes include Ofgem's revised RPE adjustment approach, which profiles the weighting of cost categories to reflect the evolution of cost structures over time

Name	Type	Key features	Sector	Notable changes between FD and DD
Decarbonisation and Environmental Policy (DEP)	Re-opener	Allows amendments to the price control in response to changes from meeting of decarbonisation and environmental policy developments.	GD, GT, ET	Previously named <i>Net Zero Re-opener</i> , the name change reflects that this re-opener applies more broadly, including environmental developments beyond Net Zero policy change.
Whole Systems Co-ordinated Adjustment Mechanism (CAM)	Re-opener	Allows the transfer of activities and associated revenues from one network company to another, where another company can deliver greater value. Ofgem has removed the re-opener submission window from RIIO-2 to add flexibility.	GD, GT, ET	No major changes from DD. Ofgem will not be setting an incentive in this area as suggested by Cadent and NGN.
Decarbonisation Project Development UIOLI	UIOLI	Intended to fund small decarbonisation facilitation projects, and early development work for projects intended to be brought forward under specific re-openers. The maximum spend per project has been set at £2.5m. Funding levels available are equal to 0.5% of base revenue.	GD, GT	<b>Ofgem has increased the maximum spend per project from £2m. The total funding available has increased by 80-90% - previously it was set at the RIIO-2 level plus inflation.</b> Renamed from <i>Net Zero and Re-opener Development (NZARD)</i> at DD.
Small Decarbonisation Projects Re-opener	Re-opener	Intended to fund projects that are too material for Decarbonisation Project Development. The materiality threshold is £1m, and projects up to a value of £100m can be considered.	GD, GT	Renamed from <i>Net Zero Pre-Construction and Small Projects (NZASP) Re-opener</i> at DD.
Resilience Re-opener	Re-opener	Adjusts allowances where the government or NESO require companies to undertake resilience-related activities not anticipated at the start of RIIO-3. The materiality threshold is 0.5% of ex ante base revenue.	GD, GT	No change.
RPEs	Price indexation	Ofgem will include labour and materials RPEs (for all companies); as well as plant and equipment RPEs (for SHET & NGET).	GD, GT, ET	<b>Ofgem has decided to profile weightings over time to reflect that cost structures are expected to evolve as the price control progresses.</b> The Timber index has been excluded for GDNs, as per company responses; and 2 new BEAMA indices have been added for NGET.



## As at DDs, ODIs and PCDs are generally set on a sector-specific basis, and changes to these incentives have been relatively minor

**Overall, Ofgem has made minimal changes to its ODI package, retaining the reputational and financial ODIs set out in the DDs, without introducing further incentives.**

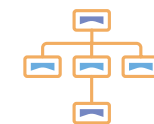
- It has tweaked some elements of the ODI framework across sectors compared to the DDs, where new data has been provided by the companies or where it considered the incentives were not functioning effectively. This includes adjustments to ODI targets, the strength and exposure of financial (ODI-F) incentives, and changes to reporting requirements.
- Some of these changes increase (or decrease) the likelihood of companies outperforming, e.g. by reducing (or increasing) the stretch of ODI targets. Similarly, some changes increase the incentive power of ODIs, by increasing the range of potential ODI penalties and rewards for companies, whereas other changes have the opposite effect. In aggregate, it is not clear whether companies would expect to benefit from these changes.
- Ofgem has re-estimated the RoRE risk associated with ODIs. Whilst Ofgem's view of ODI RoRE risk is broadly consistent between the DDs and FDs for GD and GT, it reports a much larger ODI RoRE risk range for ET than before. This is driven largely by the Major Projects ODI, with a potential upside of 3.75% RoRE and downside of -1.87% RoRE.

**Ofgem has largely maintained its approach to PCDs from the DDs, using both evaluative and mechanistic PCDs to claw back allowances in the case of non-delivery on specific outputs.**

- The most material changes on PCDs have come in the GT sector, where four new evaluative PCDs have been introduced and one PCD has been removed. Allowances associated with several PCDs in GT have also been increased and Ofgem requires improved reporting and record keeping across GT PCDs.
- In the GD sector, Ofgem has increased the scope for outperformance by introducing (or removing caps on) an upwards allowance adjustment mechanism on PCDs.
- The most significant change for cross-sector PCDs has been the revision to the NARM method, specifically, the introduction of a "Hybrid Funding Approach" for the NARM Funding Adjustment and Penalty Mechanism.

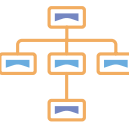
**Ofgem has also maintained its Totex Incentive Mechanism (TIM) methodology for GD and GT. However, it has increased the incentive power of the mechanism for ET.**

- Ofgem has increased the proportion of a totex over/underspend that would be borne by the TOs, when the TO's % over/underspend is greater than 5%.



## Ofgem has made some adjustments to cross-sector incentives, most notably changing its approach to the NARM Funding Adjustment and Penalty Mechanism

Name	Type	Key features	Sector	Notable changes between FD and DD
Environmental Action Plan and Annual Environment Report	ODI-R and LO	Under this License Obligation and ODI-R, companies must outline environmental commitments and report on them annually.	GD, GT, ET	No notable changes.
Operational Transport Emissions Reduction	Mechanistic PCD	Sets a target number of zero emissions vehicles and associated charging infrastructure, adjusting funding according to the number delivered against the target.	ET and GD	As anticipated in the DDs, this PCD has now been updated to reflect the latest information from companies, to set common unit cost allowances and target numbers of ZEVs. This PCD will no longer apply to SHET due to a lack of applicable outputs. Associated charging infrastructure costs have also been removed from the PCD due to the lack of common costs, outputs, and overall low materiality.
Network Asset Risk Metric (NARM)	PCD, ODI-F and ODI-R	Provides financial adjustments and penalties based on a company's delivery of its Baseline Network Risk Outputs, and the extent to which over/under-delivery is deemed to be justified. Ofgem proposed to continue the use of a deadband around Baseline Network Risk Outputs within which justification not required ( $\pm 5\%$ for GT&GD and $\pm 2\%$ for ET). Ofgem will also continue to use the Clearly Identifiable Over or Under Delivery Mechanism to provide bespoke funding adjustments.	GD, GT, ET	Ofgem adopts a "Hybrid Funding Approach" for the NARM Funding Adjustment and Penalty Mechanism. This refines the Clearly Identifiable Mechanism proposed at DDs (as used in RIIO-2), which now adjusts funding for under/overdelivery based on the type of project or programmes of work. Funding will either be adjusted based on pre-agreed scalars such as risk or volume, or applied based on bespoke assessments.
Physical Security PCD	Evaluative PCD	This PCD ensures that network companies deliver physical security upgrades at sites designated as Critical National Infrastructure (CNI), with allowances being returned to consumers should there be any changes to the sites included on the CNI list.	ET and GT	No notable changes.
Cyber resilience PCD	PCD and re-opener	This PCD tracks delivery of projects that protect the cyber security of the network, reducing funding for undelivered projects.	GD, GT, ET	Unclear – included in confidential annexes.



## GD: Potential available allowances have increased via changes to PCDs, new re-openers and additional pass-throughs

### Incentives:

Ofgem has allowed companies an unlimited upwards allowance adjustment on PCDs, by removing caps on the allowance adjustment mechanism for the **Tier 1 Mains Decommissioned PCD** and the **Tier 1 Services PCD** and introducing an upwards allowance adjustment mechanism on the **Tier 1 Iron Stubs PCD**.

The penalty cap on all ODI-F incentives has been adjusted to maintain equivalence with 0.5% of base revenue.

Changes have been made to reflect the network specific circumstances of Cadent London and SGN Southern, in relation to:

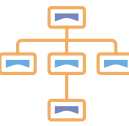
- The **Unplanned Interruptions ODI-F**: less demanding non-MOB performance targets for these networks (alongside network specific MOB targets for all networks).
- The **Collaborative Streetworks ODI-F**: there is now a minimum threshold of five projects a year for these networks before rewards are received.

Other minor changes have been made to specific ODIs:

- The **Tier 1 Stubbs ODI-F** is now split into two workloads – stubs to be decommissioned and stubs not found / left in situ.
- The **Customer Satisfaction ODI-F** targets have been updated based on latest data, and the connections survey minimum threshold has been reduced.
- The **PSR Customer Satisfaction ODI-R** targets have also been updated based on the latest data and companies must now report scores in annual reports and RRP.

### Uncertainty mechanisms:

- The **scope of the Biomethane Connections UIOLI has broadened** to allow funding for activities to address capacity constraints arising from biomethane entry connections; where previously it was limited to capex for new connections for which government funding had not been received. **The cap per connection has increased from £1m to £2m.**
- Ofgem has **added a second trigger to the HSE Policy Re-opener** to account for work to safely disconnect disused pipes where a supplier has failed to meet its GSIUR duties.
- Ofgem has **added a new Complex Distribution Systems (CDS) Re-opener** to fund the costs relating to CDS repex (which at DD, was intended to be funded through the NARM). The ambition is to move to funding this activity through the NARM in the next price control.
- Ofgem has **limited the scope of the New Large Load Connections Re-opener to the same scope as RIIO-GD2**, having proposed to broaden this to include general reinforcement work at DD.
- The **scope of the Specified Streetworks Costs re-opener has been broadened** to include hazardous waste management costs that arise as a result of the new Street Works UK Material Classification Protocol.
- An **additional pass-through mechanism** has been added at FD to account for costs associated with the **Supply of Last Resort (SoLR)** mechanism.



## GT: Ofgem has introduced several new PCDs for NGT, adjusted ODI targets and broadened the scope of a number of re-openers

### Incentives:

Ofgem has expanded the use of PCDs, introducing four new evaluative PCDs:

- **Compressor Acoustic Building (CAB) PCD.** Allows NGT to fund CAB asset replacement, addressing asset health issues.
- **Easement Reinstatement PCD.** Allows NGT to fund tree and scrub clearance, to maintain access to buried pipelines, and gas monitoring and control equipment.
- **Removal of Valve and Pipe Stabbings PCD.** Allows NGT to remove a large number of pipe stabbings located near existing works.
- **Actuator Replacement PCD.** Allows NGT to replace faulty actuators, to address asset health issues.

The **Asset Health Non-Lead Assets PCD** has also been removed as it is now largely covered by changes to the NARM funding categories and other new PCDs introduced in the FDs.

Other changes to ODIs and PCDs include:

- An increase in allowances associated with several PCDs (**Redundant Assets PCD; Nitrogen Sleeves PCD; WIRP PCD**).
- ODI targets have been adjusted for the **Quality of Demand Forecasting ODI-F; Customer Satisfaction Survey ODI-F; Entry and Exit Constraint management ODI-F; GHG emissions (compressors) ODI-F**. Some targets have become more stretching whereas others are less stretching than the DDs.
- Ofgem now requires enhanced reporting and record keeping across PCDs in general, including reporting through the RRP for all Load and Non-Load Capex expenditure.

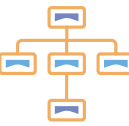
### Uncertainty mechanisms:

Ofgem has **widened the scope of the following re-openers** for NGT:

- **Network Decarbonisation and Emissions Compliance Re-opener and PCD** – now includes interventions related to Dry Low Emissions (DLE) technology.
- **Asset Health Re-opener** – now includes asset health related investments that were uncertain prior to the start of RIIO-GT3; and new investments, should the need emerge through the price control. (Previously, the scope related to the specific projects NGT proposed in its Business Plan.)
- **Office, Gas National Control Centre (NCC) and Emergency Control Room (ECR) Relocation Re-opener** – now includes investment associated with the move of NGT's ECR. **Ofgem has also removed the materiality threshold.**
- **Bacton Enhanced Filtration Re-opener** - now includes all feeders.
- **West Import Resilience Project (WIRP) Re-opener** – in line with NGT's comments.

Ofgem has **narrowed the scope of the Network Capability Re-opener** to exclude activities covered by the Network Decarbonisation and Emissions Compliance Re-opener and WIRP PCD.

Ofgem has decided to **retain HyNet FEED Study pass-through** for two years of RIIO-GT3.



## ET: Available allowances have increased materially due to larger UIOLI mechanisms, and significant changes to the TIM imply all levels of over/underspend will be shared

### Incentives:

Ofgem has made significant changes to the TIM. Specifically, it has:

- **Adjusted the TIM sharing bands.** Ofgem has kept the banded structure for determining totex sharing rates, where the portion of any over/underspend borne by TOs decreases in steps, as the % over/underspend increases. However, the third band will now begin at 20% totex over/underspend, rather than 15% in the DDs.
- **Increased the magnitude of the sharing rates.** The share of over/underspend that the TOs would be liable for has increased from 5% to 10% in band two, and 0% to 5% in band three. All over/underspend will now be shared between TOs and customers.
- **Changed the time period over which the TIM applies.** The TIM will now apply at the end of the price control, rather than in each year.

Ofgem has retained the six ET-specific ODI-Fs and one PCD proposed in the DDs. Some incentive mechanisms have experienced minor changes in relation to scope, methodology, and incentive power. For example:

- The incentive exposure of the **Major Project ODI-F** has doubled, with a potential upside of 20% of project totex against a potential downside of 10%.
- A clawback mechanism has been introduced for the **SO:TO Optimisation ODI-F**, to penalise TOs that do not meet NESO's requests for enhanced services.
- A deadband has been introduced for the **Connections ODI-F**, alongside exemptions for late customer projects and planning delays.

Ofgem considers the overall ODI package is asymmetrically tilted in the favour of the TOs. The key driver of ODI risk is the **Major Projects ODI-F**, with an upside to downside range of 3.75% RoRE to -1.87% RoRE.

### Uncertainty mechanisms:

The **allowance available under the Load UIOLI has increased for all companies.** In addition, Ofgem has also **revised the materiality threshold for this UIOLI allowance to include projects under £40m** (from £25m at DD) in line with changes to the Load Re-opener. Below, we summarise the change in allowances between DD and FD:

- NGET: £582.1m allowance up from £425.3m at DD;
- SHET: £546.2m allowance up from £143.1m at DD; and
- SPT: £324.5 allowance up from £121.1m at DD.

The **allowance for NGET under the Carbon Compensation UIOLI has been increased** to £16.2m from £9.8m at DD.

The **funding level associated with the Pre-Construction Funding (PCF) PCD and Re-opener has increased** (from 2.5% of forecast project costs to 8.2%), and **eligibility broadened** to include shared driver schemes. Below, we summarise the change in allowances between DD and FD:

- NGET: £372.3m up from £100.9m at DD;
- SHET: £308.3m up from £84.5m at DD; and
- SPT: £126.6m up from £52.2m at DD.

Ofgem has also **retained sizeable uncertainty mechanisms for CAI including a £1bn UIOLI mechanism and a re-opener for BSCs.** Ofgem suggests that the use of these funding mechanisms explains most of the gap between its ex ante indirect costs allowances and the costs submitted by companies.



## 3. FINANCE



3

## The allowed return on capital is higher for gas networks but lower for ET networks than at DDs, driven by both market movements and methodological changes

- **Overall WACC allowances are higher for gas networks, but lower for ET networks than in the DDs.** This has been driven by a reduction in the forecast cost of debt allowances for ET companies. Across all sectors, the WACC estimates remain higher than the CMA's recent provisional determinations for PR24 in the water sector.
  - For GD/GT, Ofgem sets allowances of 4.34% (CPIH real), compared to 4.22% at DDs.
  - For ET companies, Ofgem sets allowances of 4.42%-4.66% (CPIH real), compared to 4.49%-4.70% at DDs.
- As proposed in its DDs, Ofgem will apply a semi-nominal WACC due to the provision of a nominal allowance for fixed rate debt (aimed at mitigating the leveraging effect). This approach also requires a move to partial RAV indexation.
- **The cost of debt will continue to be indexed; however, several significant methodological changes have been introduced at RIIO-3:**
  - As confirmed at DDs, the benchmark index has been changed to an average of the iBoxx A & BBB Non-Financials 10+ corporate indices, reflecting concerns over the outsized impact of the water sector on the Utilities 10+ index.
  - As confirmed in the SSMD, allowances will be calculated separately for gas and electricity networks. Indexation moves to a RAV-weighted basis for ET networks, and gas networks will have a new debt benchmark adjustment to reflect evidence of divergences from the benchmark index.
  - Ofgem will also use the 5<sup>th</sup> year OBR CPIH forecast to deflate the ILD portion of assumed debt, in contrast to the Bank of England's 2% inflation target signalled in the DDs.
- **The cost of equity methodology remains unchanged from DDs**, though the allowed cost of equity has increased slightly due to market movements for the risk-free rate. Unusually, Ofgem has not updated the estimates used to determine beta.
- **Ofgem has confirmed the introduction of accelerated depreciation for GD networks** to align with the 2050 net zero target date, as set out in its DDs. This change will only apply to new assets. No acceleration of depreciation will be applied to GT and ET networks.
- **Ofgem's approach to investability remains unchanged**, and the impact of this concept on the regulator's approach continues to be unclear.
- **Ofgem has also reprofiled revenues to smooth the increase in network charges over RIIO-3**, aimed at protecting market stability in the retail sector.



## Ofgem's FD proposal increases the WACC allowance for gas networks but decreases it for electricity, primarily driven by changes in the cost of debt

**Table:** Summary of GD, GT and ET WACC allowances

RIIO-3	Notional gearing	Risk-free rate (CPIH real)	Total market return (CPIH real)	Equity beta at 60% gearing	Cost of equity at 60% gearing (CPIH real)	Cost of debt (CPIH real)	WACC (CPIH real, at notional gearing)
<b>RIIO-GD3/GT3 FD</b>	<b>60%</b>	<b>2.30</b>	<b>6.90</b>	<b>0.83</b>	<b>6.12</b>	<b>3.15<sup>1</sup></b>	<b>4.34</b>
RIIO-GD3/GT3 DD	60%	2.01	6.90	0.83	6.04	3.01 <sup>1</sup>	4.22
<i>RIIO-GD3/GT3 SSMD</i>	<i>60%</i>	<i>1.18</i>	<i>6.5-7.0</i>	<i>0.64-0.89</i>	<i>5.46</i>	<i>2.77</i>	<i>3.85<sup>1</sup></i>
<b>RIIO-ET3 FD (NGET)</b>	<b>55%</b>	<b>2.30</b>	<b>6.90</b>	<b>0.83</b>	<b>6.12</b>	<b>3.37<sup>1</sup></b>	<b>4.42</b>
RIIO-ET3 DD (NGET)	55%	2.01	6.90	0.83	6.04	3.55 <sup>1</sup>	4.49
<b>RIIO-ET3 FD (SPT)</b>	<b>55%</b>	<b>2.30</b>	<b>6.90</b>	<b>0.83</b>	<b>6.12</b>	<b>3.63<sup>1</sup></b>	<b>4.56</b>
RIIO-ET3 DD (SPT)	55%	2.01	6.90	0.83	6.04	3.77 <sup>1</sup>	4.61
<b>RIIO-ET3 FD (SHET)</b>	<b>55%</b>	<b>2.30</b>	<b>6.90</b>	<b>0.83</b>	<b>6.12</b>	<b>3.81<sup>1</sup></b>	<b>4.66</b>
RIIO-ET3 DD (SHET)	55%	2.01	6.90	0.83	6.04	3.93 <sup>1</sup>	4.70
<i>RIIO-ET3 SSMD</i>	<i>55%</i>	<i>1.18</i>	<i>6.5-7.0</i>	<i>0.64-0.89</i>	<i>5.46</i>	<i>3.13</i>	<i>4.06<sup>1</sup></i>
<i>CMA PR24 redeterminations<sup>2</sup></i>	<i>55%</i>	<i>2.49</i>	<i>7.00</i>	<i>0.75<sup>1</sup></i>	<i>5.87<sup>1</sup></i>	<i>2.98</i>	<i>4.29</i>

**Source:** Economic Insight analysis of RIIO-3 DD/FD Finance Annex and companies' RIIO-3 business plans and DD responses.

**Note:** 1. These values were not explicitly stated and have been calculated from other values.

2. The CMA uses a 55% gearing assumption. Where we have presented values at 60% gearing, these have been calculated from other values.

### Key Points:

- The forecast cost of debt allowance has been updated with market data and totex inputs. The cost of debt allowance has fallen for ET networks; however, gas networks have seen an increase in their allowance.
- Updated market data has increased the risk-free rate, resulting in a higher cost of equity, while Ofgem has retained its existing methodology and estimates for the TMR and beta.



## Ofgem's allowed finance costs generally remain below both companies' business plan and DD response proposals

**Table:** Summary of RIIO-3 GD, GT and ET companies' WACC and its components

Estimate	Cost of equity (at 60% gearing)		Cost of debt (CPIH real)		WACC (CPIH real, at notional gearing)	
	DD/BP	FD/DDR	DD/BP	FD/DDR	DD/BP	FD/DDR
<b>Ofgem (Gas)</b>	6.04	<b>6.12</b>	3.01 <sup>1</sup>	<b>3.15<sup>1</sup></b>	4.22	<b>4.34</b>
Cadent	6.30	6.80	3.23	-	4.46 <sup>1</sup>	-
NGN	6.36	6.50	3.25	-	4.50	-
SGN	6.70	6.84	-	3.45 <sup>1</sup>	-	4.81 <sup>1</sup>
WWU	6.89	6.89	4.96	-	5.73 <sup>1</sup>	-
NGT	6.48	6.85	3.37	3.38	4.61	4.77
<b>Ofgem (NGET)</b>	6.04	<b>6.12</b>	3.55 <sup>1</sup>	<b>3.37<sup>1</sup></b>	4.49	<b>4.42</b>
NGET	6.31	-	3.13 <sup>1</sup>	-	4.40 <sup>1</sup>	-
<b>Ofgem (SPT)</b>	6.04	<b>6.12</b>	3.77 <sup>1</sup>	<b>3.63<sup>1</sup></b>	4.61	<b>4.56</b>
SPT	6.86	-	4.20	-	5.27	-
<b>Ofgem (SHET)</b>	6.04	<b>6.12</b>	3.93 <sup>1</sup>	<b>3.81<sup>1</sup></b>	4.70	<b>4.66</b>
SHET	6.50	-	3.38	-	4.63	-

**Source:** Economic Insight analysis of RIIO-3 DD/FD Finance Annex and companies' RIIO-3 business plans and DD responses.

*Note:* 1. These values were not explicitly stated and have been calculated.

### Key Points:

- Ofgem's cost of equity allowance is higher than at DD, but remains below companies' BP and DD response proposals. Ofgem has moved away from a 'flat WACC' approach, as signalled at DDs. The allowed WACC now differs between gas and ET networks due to differences in gearing.
- The increase in the cost of equity between DDs and FDs is driven by an increase in the risk-free rate.
- Although Ofgem has revised the forecast cost of debt allowance for gas networks upwards, estimates remain below companies' BP and DD response proposals (where available).
- ET networks have seen a reduction in their forecast cost of debt allowances, but estimates remain above their BP proposals.



## Ofgem maintains distinct cost of debt allowances for electricity and gas networks, while continuing to apply an indexation approach

Table: Summary of RIIO-3 cost of debt approach

Parameter	Decision	
	ET	Gas
<b>New debt benchmark adjustment</b>	<b>0%</b>	<b>0.30%</b>
Benchmark index	iBoxx GBP A & BBB Non-Financials 10+ corporate indices	
Trailing average weighting	RAV-weighted	Simple average
Trailing average length	14 years	
<b>Calibration adjustment</b>	<b>+0.39%</b>	<b>+0.72%</b>
<b>Additional costs of borrowing</b>	<b>+0.26%</b>	<b>+0.32%</b>
Notional index-linked debt (ILD) assumption	10%	30%

Source: RIIO-3 FD Finance Annex.

### Key Points:

- **Ofgem has increased the benchmark adjustment for new debt in the gas sector relative to its DDs.** This reflects the inclusion of five new issuances, while also excluding tenors of 10 years or less to more closely match the average tenor of the benchmark indices. No adjustment has been applied for ET.
- **Ofgem continues to use the average of the iBoxx GBP A & BBB non-financials 10+ indices as the benchmark.** This represents a departure from RIIO-2 where it used the iBoxx utilities 10+ index. This change was motivated by volatility in this index caused by sector- and issuer-specific events in the water sector. Ofgem continues to consider that its chosen index provides a more diversified benchmark, reducing the impact of volatility in any individual sector.
- **Ofgem has maintained its reduction of the ILD assumption to 10% for ET.** This brings the assumption more closely in line with average sector holdings. Given ET support for this change, Ofgem has concluded that a transition mechanism is not required.
- **Ofgem has moved away from using the Bank of England target rate of 2% to deflate the ILD portion of assumed debt.** Instead, it intends to use the OBR's 5<sup>th</sup> year CPIH forecast, now that it is available. This is the main methodological change since the DDs.
- **Ofgem continues to apply RAV-weighted trailing averages in the ET sector.** It has continued to also include ED companies in the calibration cohort for ET to avoid this group being too small and dominated by the largest company.
- **Ofgem has increased the allowance for additional borrowing costs.** This increase is driven by an increase to the liquidity portion of the allowance. The uplift reflects higher upfront fees for maintaining revolving credit facilities and a revised averaging period that pushes up the spread used in the cost-of-carry allowance.



## Ofgem's allowed cost of equity remains below the levels proposed in company business plans and DD response proposals

**Table:** Summary of RIIO-3 GD, GT and ET companies' cost of equity and its components

Estimate	Risk-free rate		Total market return		Equity beta at 60% gearing		Cost of equity at 60% gearing	
	BP	DDR	BP	DDR	BP	DDR	BP	DDR
<b>Ofgem FD (Gas &amp; ET)</b>	<b>2.30</b>		<b>6.90</b>		<b>0.83</b>		<b>6.12</b>	
Ofgem DD (Gas & ET)	2.01		6.90		0.83		6.04	
Ofgem SSMD (Gas & ET)	1.18		6.5-7.0		0.64-0.89		5.46	
Cadent	1.82	2.58	7.0-7.5	7.0-7.5	0.76-0.89	0.83-0.99 <sup>1</sup>	6.30	6.80
NGN	1.54	2.25	7.0	7.0-7.5	0.89	0.89-0.99 <sup>1</sup>	6.36	6.50
SGN	1.54	2.25	7.0-7.5	7.25	0.83-0.99	0.92	6.70	6.84
WWU	1.54	2.25	7.0-7.5	7.0-7.5	0.94	0.89-0.99 <sup>1</sup>	6.89	6.89
NGT	1.65	2.34	7.5	7.25	0.76-0.89	0.92	6.48	6.85
NGET	1.23-1.80	2.25	7.0-7.5	7.5	0.74-0.94	0.83-1.01 <sup>1</sup>	6.31	-
SPT	-	2.25	-	7.0-7.5	-	0.89-1.01 <sup>1</sup>	6.50	-
SHET	1.54	-	7.0-7.5	-	0.91-0.95	-	6.86	-

**Source:** Economic Insight analysis of RIIO-3 FD/DD Finance Annex and companies' RIIO-3 business plans and DD responses.

*Note:* 1. These values were not explicitly stated and have been calculated.

### Key Points:

- Ofgem's estimate of the risk-free rate has risen, reflecting higher ILG yields based on updated market data. This revised figure exceeds 5 companies' DD response proposals, reflecting upward movements in rates.
- The DD methodology and point estimate for TMR was retained at FD, with equal weight applied to ex ante and ex post TMR estimates.
- Ofgem retained its DD methodology and comparator group for estimating beta. Notably, it did not revise its beta estimates to incorporate updated data.
- Ofgem has continued to reject arguments for separate asset betas for each sector as well as the inclusion of US gas utilities in the comparator set.

GD

GT

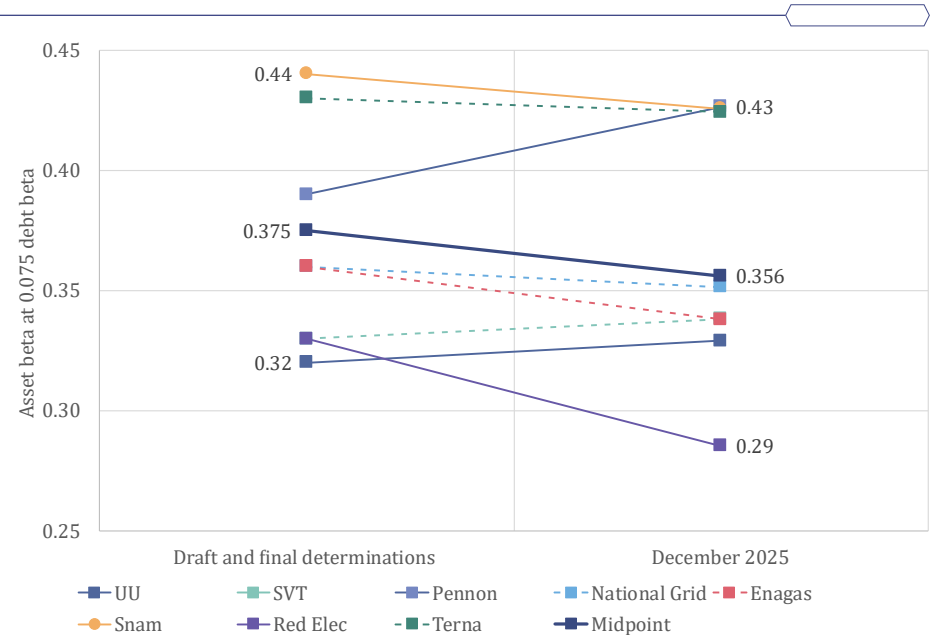
ET



## Ofgem’s decision not to include updated beta evidence avoids a reduction in the allowed cost of equity compared to DD

- Unusually, Ofgem did not include updated beta estimates when determining the cost of equity. Instead, the regulator reviewed responses to its DD proposals for beta and decided to maintain its position of 0.375 asset beta across all networks (at debt beta of 0.075). This contrasts with RIIO-2, when Ofgem considered an updated dataset at FD.
- In practice, the decision not to consider updated evidence avoids a reduction in beta compared to DD. The figure on the right compares the beta estimates Ofgem used to determine its DD and FD position with updated estimates to December 2025.
- At DD Ofgem took the mid-point of 10-year betas across the comparator set (which was 0.375). Applying the same approach to data updated to December 2025 implies asset beta of 0.356. If Ofgem had included updated data and replicated its DD approach, the resulting cost of equity allowance would therefore have been below six percent.
- Nearly all of the movement arising from the inclusion of updated data is driven by a fall in the beta of the Spanish transmission operator, Red Eléctrica, while the betas of other companies remain broadly stable (see figure). This highlights a broader problem with Ofgem’s approach of using the simple mid-point of a large comparator set: changes in a single company’s beta can disproportionately influence the overall results.

Figure: Comparator 10-year asset betas (at 0.075 debt beta)



Source: Economic Insight analysis of Ofgem DD Finance Annex and LSEG Eikon data.

- Although it is welcome that Ofgem did not reduce the cost of equity on this basis, a more sophisticated use of comparator evidence than taking the mid-point of the comparator set should be considered for future price controls (including ED3). This should be more closely grounded in an assessment of relative risk.



## Ofgem has continued to defend its approach to investability and debt financeability despite the objections raised by networks



### Depreciation

Ofgem has maintained its decision to accelerate depreciation for the GD sector to target paying back RAV additions by the net-zero target of 2050. This adjustment only applies to new assets, while existing assets will retain the current depreciation profile. This change is intended to reduce the risk of asset stranding, though some companies have still called for further action to mitigate this risk.

Ofgem has retained the existing depreciation profile for GT networks as it considers this to be a low regret option while awaiting clarity on the impact of government policy in the sector. It has also maintained the existing depreciation profile for ET networks.



### Debt financeability

Ofgem has retained its approach to assessing debt financeability from the DDs. It has defended its adjustments to rating agency methodologies, ruling out notional companies being assigned the lowest possible score for capital programme complexity and instead assigning the second-lowest score. Ofgem cites the qualitative nature of the scoring criteria and notes that Moody's rarely assigns the lowest score. Despite this adjustment, Ofgem still needed to reduce bucket two totex capitalisation rates to achieve financial ratios consistent with the target credit rating in the ET sector.



### Investability

While Ofgem introduced the concept of investability at RIIO-3, in practice, it is unclear whether this has had a meaningful practical impact on its approach to finance issues. Its position on investability remains unchanged from the DDs.

- Ofgem considers its cross-checks to be complete and consistent, despite claims by all network companies in their DD responses that they disagreed with its conclusions. It has not accepted any of the additional cross checks suggested by companies for its cost of equity allowance.
- Ofgem has reaffirmed that it considers it most appropriate to use the midpoint of its cost of equity range, again rejecting arguments for aiming up in relation to elevated capital expenditure for electricity networks and increased risk in the gas sector.
- As in its DDs, Ofgem appears to have only given limited consideration to whether the overall price control is a 'fair bet' for equity investors (such that they are expected to be able to earn the allowed cost of equity). While it evaluates some stress tests for plausible downside scenarios, the type of deterministic scenarios assessed are insufficient to provide a robust view of equity risk for the notional company.



## Ofgem has reprofiled revenues to smooth the increase in network charges over RIIO-3, protecting market stability in the retail sector

**Table:** Summary of impact of revenue reprofiling for a dual fuel household with average usage

Component	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Final determination (pre-profiling)	£222	£273	£293	£311	£321	£330
ET profiling effect	-	-£3	£0	£1	£1	£1
GD &GT profiling effect	-	-£8	-£3	£1	£4	£7
Total profiling effect	-	-£11	-£3	£2	£5	£8
FD (actual)	<b>£222</b>	<b>£262</b>	<b>£291</b>	<b>£313</b>	<b>£326</b>	<b>£338</b>

**Source:** RIIO-3 FD Impact Assessment

### Key Points:

- Responding to supplier concerns about the sharp rise in network charges at the start of RIIO-3, Ofgem now proposes a moderate re-profiling of allowed revenues to smooth the increase in prices over the five-year period. This is intended to particularly support suppliers with large non-domestic customer bases on fixed contracts.
- Across the three sectors, the changes reduce network charges in the first year of RIIO-3 by £11 for an average household and increase them by £8 in the final year of RIIO-3. As a result of re-profiling, charges at the start of RIIO-3 are 4.0% lower than they would have been, while charges at the end of RIIO-3 are 2.4% higher. Meanwhile, network charges will increase by 18% in March 2026, compared to 23% had Ofgem not reprofiled revenues.
- By the final year of RIIO-3, overall charges for the three sectors will be 50% higher than the final year of RIIO-2 (in today's prices) with this increase being predominantly driven by ET.
- The effect of the re-profiling combined with the overall increase in allowed revenues compared to DDs means Ofgem now estimates charges in the final year of RIIO-3 which are 4% higher than at DDs.

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- 2.2 We do not provide investment advice. We are not licensed in the conduct of investment business, as defined in the Financial Services and Markets Act 2000.

## 3 Assumptions and Qualifications

- 3.1 We have relied on the following assumptions in relation to the information supplied to us (or obtained by us, such as public domain information and data) (“The Information”) in preparing this report: (i) there are no material errors or omissions in The Information; (ii) The Information is current, accurate, reliable and complete; and (iii) no party to The Information (or this report), is or will be, engaging in any fraudulent, misleading or unconscionable conduct or seeking to conduct any transaction in a

manner or for a purpose not evident on the face of The Information reported by us in connection with The Information (or this report) or that any relevant transaction or associated activity is illegal, void, voidable or otherwise unenforceable.

- 3.2 If any of the above assumptions or areas of reliance are not valid, the conclusions reached in this report may need to be re-examined and may need to be varied.

## 4 Limitations on liability

- 4.1 We will not be liable for any loss, damage, cost or expense arising in any way from, or in connection with, any dishonest, deliberate or reckless misstatement, concealment or other conduct on the part of any other person.
- 4.2 We will not be liable, whether in contract, tort (including negligence), breach of statutory duty or otherwise, for any loss of profit, loss of business, business interruption, or loss of business opportunity or any indirect or consequential loss arising under or in connection with the provision of our services (including but not limited to this report).
- 4.3 Economic Insight accepts no liability for any action taken on the basis of the contents of this report. Further to paragraph 2.2, any individual or firm considering a specific investment should consult their own broker or other investment adviser. Economic Insight accepts no liability for any specific investment decision, which must be at the investor’s own risk.
- 4.4 Subject to losses wholly excluded under paragraphs 4.1 to 4.3, our aggregate liability for any damage, loss, cost, claim or expense arising out of, or in connection with, this engagement, including any reports or documents prepared pursuant to it, whether such liability arises in contract, tort, negligence or as a result of a claim for misrepresentation or breach of statutory duty or otherwise, shall be limited to the sum in accordance with our terms of service, or as separately agreed with you (The Client(s)).
- 4.5 If any provision or part-provision of this paragraph 4 is / or becomes invalid, illegal or unenforceable, it shall be deemed modified to the minimum extent necessary to make it valid, legal and enforceable. If such modification is not possible, the relevant provision or part-provision shall be deemed deleted. Any modification to or deletion of a provision or part-provision under this paragraph 4 shall not affect the validity and enforceability of the rest of this report.



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