

Summary

Water companies are facing an unprecedented level of regulatory uncertainty going into the 2025 to 2030 period (AMP8). This is partly recognised in Ofwat's draft determinations, for example on:

- Industrial Emissions Directive (IED) compliance, where Ofwat has introduced 25:25 sharing rate to manage residual cost risks, and
- uncertainty on future landbank availability, where Ofwat has proposed a notified item.

Despite this introduction of some mechanisms to address *individual* uncertainties, we believe it would be far better to acknowledge that, overall, PR24 is being determined in the context of unprecedented uncertainty – and on that basis, introduce a consistent framework to address this.

Key drivers of uncertainty at PR24 include the following, which have the potential to significantly affect the scope of companies' functions and impact financial resources:

- (i) regulatory requirements that will need to be fulfilled in AMP8 but which are likely to continue to require further clarification beyond the point of final determinations;
- (ii) where scientific understanding or public priorities (and, therefore, relevant legislation or guidance) is developing rapidly, such as on biosolids, or PFAS; and
- (iii) where there is uncertainty regarding third party behaviour and the impact on costs and performance.

Ofwat's existing regulatory framework includes mechanisms intended to manage and mitigate companies' exposure to uncertainty. However, given the type and scale of uncertainty at PR24, these mechanisms are no longer fit for purpose. The current approach limits Ofwat's ability to reveal efficient costs and significantly increases risk for companies.

Companies are proposing a range of uncertainty mechanisms to Ofwat targeted at certain investment areas (for example, to manage the risk around sudden constraining of sludge spreading to land). Given the extent of uncertainties over 2025-30, we consider that a holistic approach to uncertainty would better protect customers and companies alike. We suggest Ofwat introduces two types of uncertainty mechanism, the choice of which should depend on whether or not the efficient costs of investment can be revealed as part of PR24. These mechanisms draw on elements of Ofgem's approach to RIIO-2 (summarised in Appendix 1 of this paper).

This paper builds on an initial June 2024 note submitted by Wessex Water to Ofwat in advance of draft determinations. This has been expanded upon through further analysis by Water UK and discussions across industry. We note that further work with Ofwat and companies will be required, particularly where there are different approaches or proposals included within companies' submissions on the specific design features of uncertainty mechanisms, but believe improvements are possible and necessary in time for final determinations.

Companies are facing an unprecedented level of uncertainty at PR24

Between now and 2030, across all wholesale price controls, companies face significantly elevated uncertainty regarding the scope and scale of enhancement programmes, and associated expenditure.

Some examples of this uncertainty are as follows:

- Regulatory standards or requirements may change during AMP8. For example, we anticipate possible changes relating to ‘forever chemicals’ (‘PFAS’), reflecting rapidly-developing science. These may include the following:
 - Changes to Drinking Water Inspectorate (DWI) guidance or even the introduction of PFAS-specific legislation. This could change the thresholds that determine ‘tier 1 / 2 / 3’ PFAS concentration levels and therefore the actions that companies must take in relation to different water sources.
 - A requirement from the DWI to sample for new PFAS compounds, which has the potential to move more sites into ‘tier 3’, again triggering new requirements for action.
 - Recategorisation of sites as a result of more frequent or higher-quality sampling.
 - A change in the raw water quality as a result of third-party activity (e.g. the chemicals used in firefighting).
 - A decision by the Environment Agency to introduce new regulatory standards that can only be met via new investment at wastewater treatment works.

Each of the above would be outside of company control and could require an increase in the treatment required at one or more sites - with large potential implications for investment. For illustration, new DWI requirements (introduced after companies had submitted their business plans to Ofwat) resulted in the need for PFAS mitigations at additional sites for some companies, increasing each company’s costs by between £40-100m.

Similar concerns relate to clarity over Farming Rules for Water and its potential impact on companies’ biosolids strategies. For example, 70% (or about 2.4 million tonnes) of water industry bioresources are spread in the Autumn; prohibiting or further constraining that practice would introduce very large and unquantified costs as well as causing very significant operational disruption.

- Obligations relating to the Water Industry National Environment Programme (WINEP), where companies face ongoing changes to plans, and related uncertainty regarding the volume of work required to meet WINEP requirements. For example, some companies are still holding ongoing conversations with Defra regarding the timing of nutrient removal upgrade schemes, whether companies may be required to phase some activities into AMP9, and the types of solutions that can be deployed (e.g. grey versus nature based, or the use of catchment permitting and nutrient balancing as alternatives/complements to asset-based upgrades).
- A number of areas where third party behaviour could affect costs and/or performance, especially as a result of structural changes to the economy or land use in the region. For example, water demand from business customers may look very different to current predictions as new types of industrial connection emerge (e.g. battery factories, hydrogen generation and

data centres, all of which require significant amounts of water). This could significantly impact performance commitments.

- A growing expectation from regulators (Environment Agency and DWI) that new requirements are met immediately, rather than during the subsequent price control, reducing flexibility and increasing the scale of in-period impact on companies.

The scale of this uncertainty is very damaging because it may mean companies do not have the funds needed to respond to important changes over 2025 to 2030. This may in turn mean that customers do not see operational and environment improvements that they expect. Asking companies to rely on standard cost sharing rates would expose companies and their investors to unreasonable levels of financial risk, both through lack of full funding and the need to cover financing costs until the next price review. This would increase the financeability and financial resilience risks already present in Ofwat's draft determinations.

Ofwat's existing mechanisms are no longer fit for purpose

Ofwat's existing regulatory framework includes mechanisms intended to manage and mitigate companies' exposure to uncertainty. However, given the scale of uncertainty at PR24, these mechanisms are no longer fit for purpose.

Uncertainty, to some extent, has always been a feature of the regulatory framework, and Ofwat has mechanisms in place which are intended to manage and mitigate this.

Interim determination of K (IDoK)

The existing 'interim determination of K' (IDoK) mechanism is not sufficient to deal with the uncertainty facing companies at PR24. This is because:

- It is overly burdensome for companies and Ofwat (for example, it results in a complete reopening of the price control).
- Relatedly, the materiality threshold for having an issue considered is prohibitively high (i.e. 10% of company turnover). Issues below this threshold still represent very significant levels of non-controllable risk for companies who have no choice about their level of exposure.
- It is not robust to the likely outcome that different uncertainties will be revealed at different times (that is, it is not set up to deal with multiple cost shocks occurring at different times).
- It is not well placed to deal with cost shocks that are not company-specific and have industry-wide implications (and could be addressed in tandem).
- It creates regulatory risk and uncertainty for companies and investors, as Ofwat is able to reopen any other areas of the price control, putting previously approved allowances at risk of ex-post challenge.

Cost sharing

While the cost sharing mechanism can somewhat mitigate the financial impact of uncertainty, relying on it is at odds with the principles of incentive-based regulation and limited by its design features. This is because it does not allow for companies to recoup the efficient costs of meeting statutory and regulatory requirements. Cost sharing is also not effective at mitigating large-scale unfunded risks (such as landbank loss, which would have an impact that, while unquantified, is thought to be in the £hundreds of millions).

However, we note that the use of cost sharing has a lower regulatory burden than other mechanisms and is preferable to the *absence of a mechanism* to reflect uncertainty. This is reflected by some companies suggesting that Ofwat extends its proposed ‘enhanced’ cost sharing rates to include additional areas of uncertainty within the bioresources price control.

Gated processes

Setting conditions for the release over time of investment (‘gated processes’), used by Ofwat and RAPID at PR19, and proposed for expansion at PR24, can be a way to manage uncertainty. However, such processes are complex, not least as a result of releasing tranches of funding in multiple stages, and most naturally fit with early-stage multi-AMP projects. This would be burdensome and much less well-suited to cases where companies face an urgent need to deliver new assets quickly in the same AMP (such as the examples discussed above). In addition, some of the gated processes proposed by Ofwat in the draft determinations fail to include development or financing costs, putting further risk on companies.

Implications for PR24

The lack of alternatives to existing mechanisms risks a miscalibration of the PR24 package. In the absence of full knowledge of the obligations they will face at AMP8, companies have been forced to make differing assumptions in their business plans about common risks. For example, with the Industrial Emissions Directive there are significant uncertainties about the scope of future requirements and any associated cost sharing¹ that may follow new interpretations (e.g. that require greater control of methane emissions or further treatment of liquors). Because assumptions about that vary by company, this limits Ofwat’s ability to make meaningful comparisons to reveal the efficient level of costs. This risks a miscalibration of the PR24 package, with improvements unable to be delivered or financed leading to worse outcomes for customers and the environment.

Ofwat should adopt new, targeted mechanisms with common design features

Therefore, we recommend Ofwat develops new targeted mechanisms for managing the unprecedented degree of uncertainty about the scope and scale of future enhancement workload, which could be applied across a wide range of cost categories.

Broadly, we consider there are two types of uncertainty facing Ofwat and companies:

1. Uncertainty as a result of unconfirmed *volumes*, even if the efficient costs of incremental investment can be revealed through the PR24 process.
2. Uncertainty as a result of unconfirmed *costs*, which cannot be determined by the time of PR24 final determinations (e.g. because the necessity or type of future intervention is as yet unclear). This form of uncertainty poses a bigger risk to customers and companies as the scale of uncertainty is much greater.

We need to find an approach for dealing with each of these categories while ensuring that allowances remain economically efficient and that there is no increase in risk to customers or

¹ There are at least three different cost sharing ratios that could be applied depending on how Ofwat interprets specific changes (which may not automatically fall under Ofwat’s definition of IED cost sharing): sharing as per the whole price control, per the IED-specific 25:25 cost share, or the general enhancement rate of 60:40.

companies. Given the range of uncertainty at AMP8, a ‘one-size-fits-all’ mechanism is unlikely to achieve all of those objectives.

Instead, we propose Ofwat adopts two complementary mechanisms aimed at each type of uncertainty. These draw on Ofgem’s approach to its RIIO-2 price determination, which was specifically designed to ensure that: *“Consumers fund projects only when there is clear evidence of benefit and we have clarity on likely costs.”*² and are as follows (with further detail in Appendix 1):

1. an **asset-linked volume driver**. Where the efficient costs of potential incremental investments can be revealed through the PR24 process, but the required volume is uncertain, allowances could be linked to an automatic asset-linked volume driver. For example, this could be applied to aspects of the WINEP programme.
2. a **targeted reopener**. For material, unanticipated requirements which arise after Final Determinations, we propose a targeted reopener, through which Ofwat would determine an additional allowance to fund extra workload. For example, this could be applied to the uncertainty regarding PFAS and Farming Rules for Water where the type of intervention, and therefore associated costs, cannot be determined ahead of the PR24 Final Determinations. Crucially, and unlike the IDoK, this mechanism would not reopen other aspects of the price control by default. For this mechanism to work effectively, the threshold would need to be below that of the IDoK. We consider the following could be suitable levels for such a threshold.
 - A 2% threshold – tantamount to Ofwat’s triviality threshold in the IDoK.
 - A 10% threshold based on individual price controls rather than turnover. This is consistent with the level proposed in some business plans for bioresources as a result of changes to Farming Rules for Water (‘FRfW’) and the Industrial Emissions Directive (‘IED’).

When designing uncertainty mechanisms, Ofwat should ensure they are financeable. We are concerned that some of the uncertainty mechanisms or gated allowances proposed in the draft determinations introduce friction against its duties in this regard. While some mechanisms explicitly provide in-period funding and certainty on financing costs, others do not. For the latter, companies are expected to carry financing costs over 2025 to 2030, with Ofwat making a decision on cost recovery (and potential financing costs) as part of PR29. This exacerbates problems for financeability that flow from other aspects of the draft determination (see Chapter 3 of our main consultation response, published alongside this note, for more detail). At a minimum, Ofwat should ensure all uncertainty mechanisms or gated processes within the PR24 final determinations include financing costs, and allow in-period recovery where this is likely to support a company’s financeability.

In the next two tables, we set out:

- Table 1 – the suggested design features of each of the two types of proposed uncertainty mechanism
- Table 2 – how each of those mechanisms might be used to address uncertainty in different investment areas

² Paragraph 1.1. (page 7) [RIIO-2 Final Determinations Electricity Transmission System Annex \(REVISED\) \(ofgem.gov.uk\)](#)

Table 1: Proposed design features of each uncertainty mechanism

Dimension	Key considerations	Asset-linked volume drivers	Targeted reopener
Scope	Does the uncertainty mechanism apply to a specific cost item (e.g. an enhancement category), or does it apply more broadly (e.g. to one or more price control)?	Enhancement programmes with uncertainty about the volume of work required because of uncertainty about legislation/regulations or how the Environment Agency/DWI will enforce.	Named areas of enhancement in the wholesale price controls where companies may face a previously unanticipated, material cost if external requirements change during the price control. A materiality threshold could be set as a percentage of price control totex.
Trigger	How is the uncertainty mechanism activated? For example, is it triggered by an external event/decision (e.g. from the Environment Agency), is it triggered by a company request/notification or is it at Ofwat’s discretion?	Environment Agency/DWI formally notifying company of requirements.	Company notification to Ofwat of new, material cost.
Level of automation	Does triggering the uncertainty mechanism automatically ‘release’ funding to the company, or does it launch a process through which Ofwat decides what allowance to grant?	High automation – pre-agreed additional revenue released once trigger activated.	Low automation – while the <i>process</i> is defined in advance, Ofwat must still manually assess requests for allowances.
Allowance	What is the level of funding, how and when is it received (e.g. in line with expenditure or based on a future ‘ex-post’ true-up)? How is the funding linked to the work that needs to be carried-out?	Unit prices agreed in £ terms at final determinations – potentially indexed by inflation and Real Price Effects (RPE) during price control. Depending on circumstances, allowance-per-asset could be agreed for industry as a whole, or, in cases where efficient costs vary between companies, on a case-by-case basis.	The allowance is set by Ofwat following consultation with company (and other stakeholders) and received in-line with expenditure through an adjustment to total allowances.

Protections for customers and companies	How will company and customers be protected from any overspending or under-delivery, and how can the company be incentivised to spend the allowance efficiently (e.g. through cost sharing, Outcome Delivery Incentives (ODIs), etc.)?	The mechanism is externally-triggered, avoiding any risk that companies can 'game' the price control to build unnecessary additional capex. All protections which apply to the core price control settlement (such as cost sharing, inflation and RPE indexation etc.) would also apply. Ofwat could set an overall "cap" on the sum of additional costs recovered through volume drivers and/or caps on the number of additional assets for each specific investment area.	As with other price control costs, this would be subject to cost-sharing and other mechanisms to share risk/return between company and customers. Assessment of costs by Ofwat protects customers from inefficient or unnecessary expenditure.
Process and requirement on the company and Ofwat	Based on above dimensions, what evidence must the company submit to Ofwat to receive funding? Is there are large burden on Ofwat and/or the company?	Light-touch process for company to notify Ofwat that trigger has been activated and Ofwat to verify this, and then reconcile via Price Control Financial Model, licences etc.	Company required to submit evidence to Ofwat, and Ofwat to assess and make its draft and final determination. Evidence and assessment would include a needs case, options assessment and evidence that proposed expenditure is efficient. Total duration likely to be around six months between company submission and Ofwat's final decision.
Impacts on the rest of the price control	Does the uncertainty mechanism affect (or 'reopen') any other elements of the PR24, e.g. the decision on debt/equity returns (WACC), the rate of fast/slow money, etc.? How would it interact with price control deliverables and outcome delivery incentives?	None.	Limited - Potential to revise related components where additional investment affects ODIs/PCs. No need to revisit other elements of price control. May also trigger PCD if alternative investments no longer required.

Table 2 below sets out our consideration of which mechanism could be the most appropriate for mitigating different kinds of uncertainty. In general, we propose an asset-linked volume driver wherever the volume of work required, while uncertain, can be defined in advance. Where the requirement is less certain, or it is not possible to define work, we suggest a targeted reopener is more appropriate. This list is not intended to be exhaustive - instead it illustrates how we consider each of the mechanisms could be used to mitigate some of the uncertainty already identified.

Table 2: Potential use of the uncertainty mechanism by investment area

Investment Area	Regulatory uncertainty (illustrative and non-exhaustive)	Impact on AMP8	Likely most appropriate mechanism
Drinking water - PFAS	<ul style="list-style-type: none"> • Changes to the DWI thresholds that determine tier 1 / 2 / 3 PFAS concentration levels. • Changes to the way in which the DWI measures PFAS levels e.g. setting a threshold for ‘cumulative’ PFAS levels, rather than for individual compounds. • An expansion in the number of PFAS compounds DWI requires monitoring for • A change in raw water quality (e.g. due to third party activity). 	Any one of these changes, or a combination of them, could lead to an immediate change in the tier of a water treatment site. This could (if moving from tier 3 or 2 to tier 1) necessitate immediate treatment work to reduce PFAS concentrations. The cost of this would vary at each individual site, and determining efficient costs generally require a site-by-site appraisal so cannot be accurately determined ‘ex-ante’. But cost at any one site alone could be in the £tens of millions.	Targeted reopener
Drinking water - lead	<ul style="list-style-type: none"> • A change to DWI guidelines and associated legislation on their expectation for water companies to achieve a ‘lead free’ network. 	Requirement to increase lead pipe replacement in AMP8 to meet changes in regulatory requirements and a deadline to remove all lead pipes.	Asset-linked volume driver
Wastewater – PFAS	<ul style="list-style-type: none"> • The regulatory situation changes such that wastewater discharges require new PFAS management, this could arise following new requirements from Defra to add PFAS to the list of pollutants to be removed from waste water / biosolids. This could be a requirement specific to ‘hot spot’ (e.g. where industrial discharges are important) or ahead of a specific reuse (e.g. treated waste water reuse) • The Environment Agency would update permit conditions to reflect new requirements 	Requirement to add new treatments to remove PFAS (e.g. reverse osmosis, granulated activated carbon) which would lead to additional capital and operational costs, additional capex for new infrastructure for alternative waste disposal routes.	Targeted reopener
New Permitting at Supply Sites	<ul style="list-style-type: none"> • The Environment Agency has indicated they wish to implement new permitting for run to waste and sludge disposal at water supply sites. 	The cost of this would vary at each individual site, and determining efficient costs generally requires a site-by-site appraisal so cannot be accurately determined ex-ante. But total cost could be in the tens of millions	Could plausibly be both – may depend on whether it is uncertainty (1) or uncertainty (2). This will

			depend on engagement between DD and FD.
Trunk main flow balance requirements	<ul style="list-style-type: none"> In the draft determination Ofwat have indicated their current view is that the use of the Bursts and Background Estimate ('BABE') approach to trunk main leakage reporting should be phased out by PR29 and they expect companies to demonstrate progress towards this in annual reporting. 	This is a new requirement set out in the draft determination and as such we have not, in the seven weeks available, been able to accurately assess the cost implications of this proposed change but expect it will incur some tens of millions of pounds of investment. We would be happy to work with Ofwat over the coming months to ensure it is accurately reflected in final determinations. If that is not possible, we propose it is subject to our broader uncertainty mechanism.	Could plausibly be both – may depend on whether it is uncertainty (1) or uncertainty (2). This will depend on engagement between DD and FD.
Bioresources – landbank availability	<ul style="list-style-type: none"> Landbank availability (i.e. the amount of agricultural land on which we can dispose sludge) can rapidly decrease due to: <ul style="list-style-type: none"> Farming Rules for Water (FRfW) compliance, Implementation of the EA's Sludge Strategy, or Changes in public/farmer acceptance of biosolids. 	We will need to pursue other (more costly) disposal routes: namely, landfill and incineration, which will increase our total efficient sludge disposal costs.	Targeted reopener
Bioresources – Industrial Emissions Directive (IED) and Environmental Permitting Regulations (EPR)	<ul style="list-style-type: none"> There are uncertainties associated with the required scope of upgrades to make our digestion sites IED-compliant, as the exact standards have not been clarified by the EA (and they may be refined further following draft or final determinations). There may also be changes to the Environment Agency's Appropriate Measures guidance and/or its interpretation in the future, which will change the scope of requirements for compliance with IED and EPR permits and therefore result in further costs of upgrading our sites to meet compliance. 	An increase in IED and EPR compliance costs at our bioresources sites beyond that which we have included in our business plan.	Could plausibly be both – may depend on whether it is uncertainty (1) or uncertainty (2)
Bioresources – non-IED waste permit compliance under Environmental Permitting Regulations (EPR)	<ul style="list-style-type: none"> The EA's intention to reform 'T21 Exemptions' in the EA Sludge Strategy (an exemption that is important for managing sludge) means that either a bespoke or physico-chemical waste permit will be required for lime treatment sites. While the EA has not confirmed when the EA Sludge Strategy will be implemented, we expect permit applications will be required in AMP8. 	When lime treatment sites are permitted, they will need to comply with the Appropriate Measures guidance (which is not a requirement under current T21 Exemption). Permit compliance will therefore result in significant costs that have not been funded in PR24 or in previous AMPs.	Targeted reopener.

Bioresources – PFAS	<ul style="list-style-type: none"> The Environment Agency may require testing of biosolids for presence of persistent organic pollutants ('POPs') (or other groups of PFAS / PFOS / PFOA) prior to agricultural reuse, and potentially their treatment or removal, or alternative disposal of the bioresource itself 	An increase in operational costs for monitoring and sampling of biosolids, a potential increase in operational and capital costs if additional treatment is required to remove POPs from biosolids. If removal is not possible an alternative route for the biosolids will be required, similar challenge will be experienced than described above 'landbank availability'	Targeted reopener
Nutrients	<ul style="list-style-type: none"> Changes in Environment Agency guidance on the deadline for completing nutrient removal upgrades under the Water Framework Directive (WFD). The phasing of certain upgrades between AMP8 and AMP9 may still change. 	If some upgrades are required by 2030, but Ofwat's settlement has not included an allowance for this work, companies would need additional funding this period to allow the acceleration of delivery.	Asset-linked volume driver
Pollutions	<ul style="list-style-type: none"> The Environment Agency could amend the definition of a pollution incident for the purposes of its performance commitment, for instance by including 'Category 4' (i.e. no harm) incidents in the pollution count; or by treating all dry day spills as a pollution incident. 	This could materially affect companies' ability to achieve the AMP8 performance commitment for total pollutions, if the trajectory is not amended commensurately to reflect the increase in incidents categorised as pollutions. This could lead to significant ODI penalties from missing the target.	Targeted reopener
Emergency overflows	<ul style="list-style-type: none"> Defra are known to be considering changes to the monitoring of these overflows, potentially altering the approach currently set out by the Environment Agency to one closer to many companies' original ambition prior to business plan submission. However, national policy is still unclear. 	An increase in costs relating to emergency overflows beyond those included in business plans.	Likely to be Asset-linked volume driver. But could plausibly be both – may depend on whether it is uncertainty (1) or uncertainty (2). This will depend on engagement between DD and FD.
Inland bathing waters	<ul style="list-style-type: none"> In May 2024 Defra announced the outcome of its consultation on proposals to designate 27 new sites as bathing waters under the Bathing Water Regulations 2013. Designation means that these bathing waters will be subject to Environment Agency monitoring during the 2024 bathing season from 15th May to 30th of September to determine a classification ranging from Poor to Excellent. The EA's monitoring will only determine water quality and not any rationale or source apportionment for the levels. The outcome of the classification for 2024 is expected to be announced in November 2024. 	Changes in the scope and required costs of activities. If the bathing water is classified as Poor then the actions with BW_IMP2 and BW_INV2 will be changed to BW_IMP1 and BW_INV1 drivers (Actions to improve and Investigations for waters with current planning class of Poor), respectively. If the bathing waters are classified as Good or Excellent in late 2024 the WINEP actions can either be removed from the WINEP or given BW_INV3 drivers (Actions to improve and Investigations to lead to improving waters from Good to Excellent), respectively, where there is evidence of customer support.	For BW_IMP1 and BW_IMP2 drivers, could plausibly be both – may depend on whether it is uncertainty (1) or uncertainty (2). This will depend on engagement between DD and FD.

Appendix 1: Ofgem’s RIIO-2 uncertainty mechanisms and the applicability of these to PR24

The proposals set out above adapt or build-upon the design of mechanisms at Ofgem’s RIIO-2 price controls. Ofgem’s suite of uncertainty mechanisms addressed uncertainty concerning i) policy decisions (e.g. on decarbonisation) and ii) demand considerations (e.g. the take-up of alternative low-carbon technologies).

In relation to its uncertainty mechanisms, Ofgem made the following high-level observations on their role in the price control.

- *“We are confident that the up-front funding we are providing, combined with our range of fast and flexible uncertainty mechanisms and incentives, will enable proactive work from the ETOs to deliver Net Zero.”³*
- *“We have put in place a range of Uncertainty Mechanisms (UMs) that will allow us to assess further funding during RIIO-ET2 as the need, cost or timing of works becomes clearer. This ensures that consumers fund projects only when there is clear evidence of benefit and we have clarity on likely costs. These mechanisms also ensure that the RIIO-ET2 price control has flexibility to adapt as clarity on the pathways to Net Zero becomes clearer.”⁴*

At RIIO-ED2, Ofgem’s price control included a variety of volume driver uncertainty mechanisms linked to “high-volume, low-value works”. There are some key differences compared to the proposed mechanism. Ofgem’s were targeted towards assets affected by demand uncertainty (e.g. the number of new cables required to reinforce the network as electricity demand changes). This contrasts with AMP8, where uncertainty (and therefore the proposed mechanism) largely concern uncertainty regarding external factors, environmental standards and requirements. Second, the ED2 mechanism are generally linked to small assets installed on the network in their hundreds or thousands. While there are some examples where uncertainty may apply to similarly small assets at AMP8 (e.g. lead communication pipes or water meters), the larger value of individual water/wastewater assets leads this mechanism to be suitable for lower-volume but larger value, discrete assets which companies may be required to install.

Ofgem has included different forms of price control reopener in its RIIO-2 framework for both distribution and transmission companies. Ofgem set a reopener window at the start of each year for companies to request a reopener if they expect to incur material costs worth more than 1% of annual revenue. Ofgem’s assessment of any request for a reopener would be based on “quality of the application, the size of adjustment to allowances sought and the complexity of the issue being addressed.” Alongside these targeted reopeners, Ofgem also has mechanisms for broader reopeners in cases where more substantial policy changes require broader revision of the price control. Reopeners have already occurred across many areas of expenditure, most significantly, for load-related expenditure in the electricity transmission sector (to facilitate extra demand and new connections).

³ Paragraph 1.4. (page 6) [RIIO-2 Final Determinations Electricity Transmission System Annex \(REVISED\) \(ofgem.gov.uk\)](#)

⁴ Paragraph 1.11. (page 7) [RIIO-2 Final Determinations Electricity Transmission System Annex \(REVISED\) \(ofgem.gov.uk\)](#)