

WSX-M07 – Uncertainty mechanism

Response to
Ofwat's PR24 draft
determination



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WSX-M07 – Uncertainty mechanism

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This document is part of Wessex Water’s response to Ofwat’s PR24 draft determination.

More information can be found at wessexwater.co.uk

1. Introduction and summary

Water companies are facing an unprecedented level of regulatory uncertainty going into AMP8.

This uncertainty, is somewhat recognised in the draft determinations, for example in relation to:

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

Whilst the draft determination does introduce some mechanisms to address specific uncertainties, we consider that it would be beneficial to acknowledge that, at a high level, PR24 is being determined in the context of unprecedented uncertainty – and on this basis, a consistent framework for addressing uncertainty should be introduced. As we set out in this representation, this would have a number of benefits over the current fragmented approach for customers, investors, and Ofwat.

Key drivers of uncertainty at PR24 are set out below.

- (i) there are a number of regulatory requirements which will need to be fulfilled in AMP8 but which realistically are likely to continue to require further clarification at the point of Final Determinations (e.g. Storm overflows, EA or DWI guidance);
- (ii) there are a number of areas where the scientific understanding, public perception, and, therefore, relevant legislation is developing rapidly (e.g. Biosolids, or PFAS); and
- (iii) a number of areas where there is uncertainty regarding third party behaviour, and the impact on our cost and performance.

Each of these has the potential to have a significant impact on the scope of our functions and a corresponding impact on our financial resources.

Ofwat's existing regulatory framework, including measures introduced in the draft determination, includes mechanisms which are intended to manage and mitigate companies' exposure to uncertainty. We also understand that other companies in the industry have proposed to Ofwat the use of an uncertainty mechanisms specifically targeted at biosolids disposal.

However, given the type and scale of uncertainty at PR24, it is our view that these mechanisms are not fit for purpose. Specifically, the current approach limits Ofwat's ability to reveal efficient costs, and significantly increases risk for customers and investors (both of which could undermine the PR24 process itself).

We consider that a more holistic approach to uncertainty would more appropriately protect customers and investors. Therefore, we recommend Ofwat introduce two types of uncertainty mechanism in its final determination: asset-linked volume drivers; and targeted reopeners. These mechanisms draw on elements of Ofgem's approach to RIIO-2; and the design, and choice between them is largely dependent on whether the efficient costs of the investment can be revealed as part of the PR24 process, or not.

2. Uncertainty at AMP8

At AMP8, across all wholesale price controls Wessex (and other companies) face significantly more uncertainty regarding the scope and scale of enhancement programmes, and the associated expenditure. Key examples are included below.

- Uncertainty regarding regulatory standards or requirements that may change during AMP8. For example, in relation to PFAS, where the scientific understanding is developing rapidly, there are a number of potential changes which could occur, including the following.
 - Changes to current DWI guidance on PFAS or the introduction of PFAS specific legislation (i.e. changes to the DWI thresholds, or approach to thresholds, that determine tier 1 / 2 / 3 PFAS concentration levels).
 - A requirement from the DWI to sample for new PFAS compounds which has the potential to move more sites into Tier 3.
 - A change in the categorisation 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).

Each of the above would be outside of our control and could require mitigation measures to be implemented at one, or more, of our water treatment plants. In turn this would require a significant increase in investment (this could be as high as £50m). Similar concerns relate to clarity over Farming Rules for Water, its impact on companies' biosolids strategies, and the availability of alternate solutions.

- WINEP, where companies face ongoing changes to plans, and related uncertainty regarding the volume of work required to meet WINEP requirements. For example, Wessex is having ongoing conversations with Defra for example the types of solutions which can be deployed (e.g. grey vs nature based, or the use of catchment permitting and nutrient balancing as alternatives/complements to asset-based upgrades).
- The final outcomes of enforcement actions, or judicial decisions in or outside of the sector which could have implications for the interpretations of expectations on companies. A historical example of this can be seen in relation to nutrient neutrality and the implications for housebuilding. A forward-looking example may relate to the urban wastewater treatment directive, although by definition we note this is an “unknown unknown”.
- A number of areas where third party behaviour could impact our costs and/or performance, especially as a result of structural changes to the economy/land use in the region. For example, in relation to Business Demand where new industrial connections (e.g. battery factories, which require significant amounts of water for cooling) could significantly impact our performance on this PC.
- A growing expectation from regulators (including EA and DWI) that new requirements are met immediately, rather than during the subsequent price control.
- Uncertainty regarding the extent of improvements in AMP8, for example related to the new Poole Harbour shellfish water WINEP driver.
- Potential uncertainty about the update to the Storm overflow assessment framework (SOAF). The SOAF update could result in more cost beneficial improvements requiring improvement within 3 years. We assume this could be captured through AMP9 transitional funding to some extent.
- Uncertainty with the Drainage and wastewater management plan (DWMP) framework. These new statutory requirement of the DWMP are currently unknown, but will need to be delivered in AMP8.

3. Limitations of existing framework

Ofwat's existing regulatory framework includes mechanisms which are intended to manage and mitigate companies' exposure to uncertainty. However, given the scale of uncertainty at PR24, these mechanisms are not 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 (the features, and specific limitations of these are detailed in Annex 1). However, given the scale of uncertainty at PR24, these mechanisms are no longer fit for purpose. This is primarily for the following reasons.

- **The IDoK, is not a sufficient mechanism 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 threshold (i.e. 10% of company turnover), is prohibitively high and would therefore result in companies taking on a significant level of non-controllable risk.
 - 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 efficiently and consistently with cost shocks which will have industry wide implications (and could be addressed in tandem).
 - Its design fundamentally undermines the certainty for investors that the price control framework is intended to deliver, and therefore risks undermining the PR24 process itself.
- **Cost sharing mechanisms** can somewhat mitigate the financial impact of uncertainty but are in practice at odds with the principles of incentive-based regulation and limited by design. This is because they do not allow for companies to recoup the efficient cost of meeting regulatory requirements in the way the framework has been designed to allow. Cost sharing will not be effective in mitigating large-scale unfunded risks (such as landbank loss, which could cost £8-16m per year). 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.
- **The absence of a genuine alternative to the IDoK risks a miscalibration of the PR24 package.** In the absence of the full knowledge of the obligations they will face at AMP8, companies will be forced to make assumptions in their Business Plans (e.g. relating to IED, and the necessary changes). These assumptions will vary by company, and limit Ofwat's ability to make meaningful comparisons to reveal the efficient level of costs. This risks a miscalibration of the PR24 package.

Therefore, we recommend Ofwat develops additional targeted mechanisms to address uncertainties regarding the scope and scale of the enhancement workload, which could be applied to a wide range of cost categories.

In order to protect customers, it is necessary to put in place mechanisms which allow for changes to the settlement, whilst ensuring the allowances are provided at the efficient economic level; and the risk to customers and investors is not increased. Given the range of uncertainty at AMP8, a one-size-fits-all mechanism is unlikely to be suitable.

4. Our proposed framework

Broadly, we consider there are two types of uncertainty facing companies (and therefore Ofwat).

1. Uncertainty where the efficient costs of potential incremental investments can be revealed through the PR24 process, but the required volume is uncertain.
2. Uncertainty where the type of intervention, and therefore associated costs, cannot be determined ahead of the PR24 Final Determinations. This type of uncertainty poses a bigger risk to customers and investors as the scale of uncertainty is much greater.

Therefore, we propose Ofwat adopts two complementary mechanisms aimed at each type of uncertainty. These recommendations draw on Ofgem's approach to its RII0-2 price determinations. Ofgem's uncertainty mechanisms were specifically designed to ensure that: *"Consumers fund projects only when there is clear evidence of benefit and we have clarity on likely costs."*¹ We discuss this further in Annex 2.

1. **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 our WINEP programme.
2. **Targeted reopener.** For material 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 our business plan for bioresources (FRfW / IED changes).

The proposed design of these is further detailed in the table overleaf.

¹ Paragraph 1.1. (page 7) [RIIO-2 Final Determinations Electricity Transmission System Annex \(REVISED\)](https://www.ofgem.gov.uk) ([ofgem.gov.uk](https://www.ofgem.gov.uk))

Dimension	Key considerations	Asset-linked volume drivers	Targeted reopener
Scope	Does the UM 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 regulators (including EA/DWI) will enforce and their expectations around demonstrating compliance.	Named areas of enhancement in the wholesale price controls where company 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 UM activated? For example, is it triggered by an external event/or decision (e.g. from the EA), or is it triggered by a company request/notification, or at Ofwat's discretion?	EA/DWI/Ofwat formally informing company of requirements. This may come as a formal change to legislation, or indeed a change or clarification to the interpretation of an existing requirement (for example in relation to storm overflows or biosolids).	Company notification to Ofwat of new, material cost. This could be driven by a wide range of changes including: statutory requirements, material changes by regulators requirements in order to sign off those statutory obligations, or external changes that material impact on our ability to deliver our statutory obligations or current services to customers/the environment.
Level of automation	Does triggering the UM automatically 'release' funding to the company, or does it launch a process through which Ofwat decides what allowance to grant?	High– pre-agreed additional revenue released once trigger activated.	Low – while process defined in advance, requires Ofwat to manually assess request allowances.
Allowance	What is the level of funding, how and when is it received (e.g. in line with expenditure or based on an 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 RPEs 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.	Allowance set by Ofwat following consultation with company (and other stakeholders), and received in-line with expenditure through an adjustment to total allowances.
Protections for consumer/ company	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, ODIs, etc.)?	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, 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	Based on above dimensions, what evidence must the company submit to Ofwat to receive	Light-touch process for company to notify Ofwat that trigger has been activated and Ofwat to verify this,	Company required to submit evidence to Ofwat, and Ofwat to assess and make its draft and final determination. Evidence and

Dimension	Key considerations	Asset-linked volume drivers	Targeted reopener
on company/ Ofwat	funding? Is there are large burden on Ofwat and/or the company?	and then reconcile via Price Control Financial Model, licences etc.	assessment would include a needs case, options assessment and evidence that proposed expenditure is efficient. Total duration likely to be around 6 months between company submission and Ofwat's final decision.
Impacts on the rest of the price control	Does the UM affect (or 'reopen') any other elements of the PR24, e.g. the decision on the WACC, the rate of fast/slow money etc.? How would it interact with PCDs and ODIs?	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.

5. Our specific proposals

For each of the investment areas set out below, we consider that our proposed mechanisms would be the most appropriate for mitigating uncertainty and allowing Ofwat to set up-front allowances in light of the uncertainty faced. In general, we propose an asset-linked volume driver wherever the volume of work required, while uncertain, can be defined in advance. Where 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.

Investment Area	Regulatory uncertainty	Impact on AMP8	Likely most appropriate mechanism
Drinking water - PFAS	<p>Changes to the DWI thresholds that determine tier 1 / 2 / 3 PFAS concentration levels.</p> <p>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.</p> <p>An expansion of the PFAS compounds that DWI requires us to monitor for.</p> <p>A change in raw water quality (e.g. due to third party activity).</p>	<p>Any of these changes, or any combination of these, could lead to an immediate change in the tier that one of our water treatment sites is placed in. This could (if moving from tier 1 or 2 to tier 3) necessitate immediate mitigation measures to reduce PFAS concentrations.</p> <p>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 cost at any one site could be in the tens of millions.</p>	Targeted reopener.
Drinking water - lead	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 (6,000 in AMP8) during AMP8, in order to meet change in regulatory requirements and deadline to remove all lead pipes.	Asset-linked volume driver.

Investment Area	Regulatory uncertainty	Impact on AMP8	Likely most appropriate mechanism
New Permitting at Supply Sites	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	In the draft determination Ofwat have indicated their current view is that the use of the 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	<p>Landbank availability (i.e. the amount of agricultural land on which we can dispose sludge) can rapidly decrease due to:</p> <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. <p><i>We provide further detail on this risk and our assessment of Ofwat’s notified item approach in WSX-C18 – Bioresources and Industrial Emissions Directive (IED).</i></p>	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 – non-IED waste permit compliance under Environmental Permitting Regulations (EPR)	The EA’s intention to reform T21 Exemptions in the EA Sludge Strategy will mean that either a bespoke or phys/chem waste permit is required for all our 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 our 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 result in significant costs that have not been funded in PR24 or in previous AMPs.	Targeted reopener.
Pollutions	The EA 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 our 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

Investment Area	Regulatory uncertainty	Impact on AMP8	Likely most appropriate mechanism
Emergency overflows	<p>DEFRA have confirmed by correspondence it is likely to require monitors to be installed at 100% of emergency overflows by 2035, with the EA specifying only 25% by 2030. Defra are now considering 50% by 2030. This would likely mean increasing requirements in PR24 for roll-out from 25% to 50%. A formal confirmation of this approach will follow.</p>	<p>An increase in costs relating to emergency overflows beyond that which we have included in our business plan.</p>	<p>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.</p>
Inland bathing water	<p>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. In the Wessex Water region, three new bathing waters were designated on the River Avon at Fordingbridge, Hampshire, the River Frome at Farleigh Hungerford, Somerset and on the River Tone at French Weir Park, Somerset.</p> <p>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.</p>	<p>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.</p> <p>Note: An uncertainty mechanism is not expected for the storm overflow bathing water improvement driver (BW_IMP3) as this is more defined. Four schemes have been listed on the ADD20 data table, but are not included on our PCD mechanism, as we have not changed that from the October submission.</p>	<p>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.</p>
Poole harbour	<p>The EA has recently added another line onto the WINEP for storm overflow improvements in Poole Harbour to achieve Shellfish waters improvements (8WW103159a Poole Harbour shellfish water CSO assessment and improvement).</p> <p>The required improvement outputs are not yet confirmed and so solutions have not yet been subject to an appraisal.</p> <p>We are in discussions with the EA to include 'no regrets' improvements in AMP8. These 'no regrets' improvements are those within 5km of the Shellfish waters that are likely deliverable and some overflows that discharge frequently that are further</p>	<p>To deliver every improvement in the Poole Harbour waterbody potentially required to meet the Shellfish improvements could require a material increase in investment above what has been estimated, including significant infiltration sealing. We are therefore proposing an uncertainty mechanism for Poole Harbour improvements and are excluding them from our proposed PCD. The uncertainty mechanism could be based on Ofwat's PR24 storage model, which will also need to include an allowance for infiltration sealing to make assets watertight.</p> <p>Note: The 'no regrets' schemes have been included in our costs and on the ADD20 data table, but not included on the PCD mechanism, as we have not changed that from the October submission.</p>	<p>Could plausibly be both – may depend on whether it is uncertainty (1) or uncertainty (2). This will depend on engagement between DD and FD.</p>

Investment Area	Regulatory uncertainty	Impact on AMP8	Likely most appropriate mechanism
	<p>upstream and are not groundwater related.</p> <p>However, the EA may revise its expectations further and require that all waterbodies in the Poole Harbour catchment are subject to specific improvements.</p>		

Annex 1 – Limitations of the existing mechanisms in Ofwat’s framework

Ofwat’s regulatory framework includes the following features which are intended to manage and mitigate risk.

- The **Interim Determination (IDoK) process** is the main existing mechanism for addressing unanticipated costs which arise during the price control. Under current rules, companies can request a resetting of the whole price control if they face a material increase in costs (or a material reduction in revenues), driven by external circumstances.²
- The **RAPID Gated Process**, aimed at early-stage works where there is high level of uncertainty about the most efficient and appropriate long-term water resource solution required, releases funding in stages (gates) for pre-construction and exploratory works.
- Alongside these, the totex **cost-sharing** mechanism also mitigates the financial impact of costs uncertainty on companies. A company which incurs higher (or lower) costs due to unforeseen circumstances shares some of the resulting overspend (or underspend) with customers, by default.

However, these mechanisms are not fit for purpose in the context of the uncertainty faced at AMP8. The key limitations of each are detailed below.

- The IDoK process has a very high materiality threshold, and is therefore more appropriate for very-large, one-off events, rather than the wide- range of potential uncertainties around expenditure across many activities at PR24. IDoK applications must be worth 10% of company turnover for the application as a whole – with a specific 2% “triviality” threshold for individual items included in any application.
- An IDoK also allows Ofwat to reopen any other areas of the price control, putting previously approved allowances at risk of ex-post challenge. This increases the regulatory burden (for Ofwat and the company) and carries significant regulatory risk for the company, which are already delivering their business plan based on Ofwat’s Final Determinations. For this reason the IDoK has rarely been used.³
- The RAPID Gated process is complex, releasing tranches of funding in multiple stages, reflecting its focus on funding for early-stage multi-AMP projects (in this case, strategic water resource solutions). This would be burdensome and ill-suited to cases where companies face an urgent need to deliver new assets quickly in the same AMP (such as the examples discussed above).
- The cost-sharing mechanism limits the regulatory burden but does not allow companies to recoup the efficient costs of meeting their regulatory requirements.

² Ofwat website - [Interim determinations - Ofwat](#)

³ Thames Water made an application under the IDoK process in PR14. This was rejected by Ofwat partly on the grounds that other changes in circumstances had reduced Thames’ costs, bringing the application below the materiality threshold.

Annex 2 – 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.”⁴*
- *“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.”⁵*

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 our 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 our 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).

⁴ Paragraph 1.4. (page 6) [RIIO-2 Final Determinations Electricity Transmission System Annex \(REVISED\) \(ofgem.gov.uk\)](#)

⁵ Paragraph 1.11. (page 7) [RIIO-2 Final Determinations Electricity Transmission System Annex \(REVISED\) \(ofgem.gov.uk\)](#)