

## Annex 3 – Summary of Approach to Impact Assessment (IA) as part of RIIO-ED3

- The RIIO-ED3 IA will need to ensure a clear line of sight and provide an evidential trail for how policy has been developed to demonstrate how Ofgem:
  - Considers and demonstrates it is fulfilling its new statutory duties for Net Zero and Growth.
  - Evidences how the stated effect of its decisions can be aligned with the Consumer Interest Framework.
  - Weights and ranks decisions across the price control to ensure balance and adequate consideration given across the range of competing needs and outcomes.
- Ofgem's RIIO-ED3 IA will be required to consider a new and evolving set of requirements in terms of consumer needs and the broader transition to a net-zero energy system, including:
  - Calibrating customer service incentives and ensuring all customer groups needs and priorities are addressed while not simplifying the output to a one size fits all.
  - The need to adopt an analytical frame which supports strategic investment and considers alternative sources of value.
  - Treatment of risk to recognise the challenges and changing risk dynamics observed across the infrastructure sectors.
  - The continuing need and development of the digitalisation of the ED sector and the role this plays in facilitating the net zero transition.
  - Ensuring Workforce Renewal investments are facilitated to mitigate supply chain constraints and aging workforce in the short-medium term and potentially deliver wide-ranging economic benefits over the medium-long term.
- To achieve this, it would be beneficial for ED3 stakeholders to see:
  - Consultation on the approach to Impact Assessment for RIIO-ED3 based on best practice and consistent with Ofgem's revised guidance;
  - An Impact Assessment at each stage of the process – in relation to the ED3 Framework decision, the SSMC and SSMD, the Draft Determination and Final Determination
  - The Impact Assessment to be updated at each stage for additional analysis and to specifically show how it has taken into account stakeholder views and responses to comments as part of earlier iterations
  - Alignment between the approach to Impact Assessment, the Consumer Interest Framework and the application of assessment of consumer value – for example through the value constructs set out in NGED's accompanying Consumer Value Framework;
  - The options considered and decisions proposed to be assessed both individually and holistically – i.e. key individual decisions on TIM, ODIs, Cost of Equity, Asset lives and Regulatory depreciation should be assessed individually as well as in the round.
  - RIIO-ED3 is not simply assessed against a 'do nothing' counterfactual of RIIO-ED2 continuance, but that it is clearly assessed against alternate options in relation to each major decision taken.
  - Where decisions are proposed that Ofgem clearly sets out the stated effect of the decision and how it has weighed up and balanced its duties in arriving at that decision proposed.

## Introduction and Context

Ofgem is required to conduct an Impact Assessment under Section 5A of the Utilities Act, 2000 for those proposals in relation to the discharge of its duties which are considered 'important'. This includes those which *'have a significant impact on persons engaged in the shipping, transportation or supply of gas through pipes or in the generation, transmission, distribution or supply of electricity, or in the provision of smart meter communication services (in respect of electricity meters or gas meters).'*<sup>1</sup> In the context of electricity distribution and the role of electricity distribution in meeting our net zero ambitions it is difficult to conceive of a decision of greater importance in this context than that of RIIO-ED3 which will contain a wide range of proposals

Alongside its RIIO-3 Sector Specific Methodology Decision (SSMD)<sup>2</sup> for electricity transmission and gas Ofgem invited stakeholders to comment on its considerations and approach to Impact Assessment for RIIO-3. Ofgem specifically sought views on the following questions:

- The approach Ofgem proposed for assessing RIIO-3 proposals?
- The proposed scope of the assessment?
- Any additional evidence which Ofgem should consider?
- The outputs which should be presented in the IA?

These questions were raised by Ofgem in the context of the new duties conveyed upon it since the determination of the previous set of RIIO controls – namely the Net Zero duty and the duty to promote economic growth. These new duties, the revised context in relation to the Strategic and Policy Statement, and the revision to both the overarching policy objectives and the guidance for the conduct of policy appraisal since the introduction of RIIO-2 all point to and support a revised approach.

This annex represents NGED's input to these questions in relation to their consideration as part of RIIO-ED3.

## Ofgem's Consumer Interest Framework, NGED's Consumer Value Framework and Impact Assessment

In 2023, Ofgem published the Consumer Interest Framework (CIF) – see Figure 1. Ofgem has elsewhere stated that the CIF will form the basis of its assessment of its RIIO-3 decisions. In December 2024, Ofgem published revision to its Impact Assessment Guidance. We welcome this revised guidance. In this Annex to our ED3 Framework response we consider the application of this revised Impact Assessment as part of Ofgem's decision making as part of RIIO-ED3 and how this aligns with and can be aligned with the Ofgem Consumer Interest Framework and NGED's Consumer Value Framework set out elsewhere in our response.

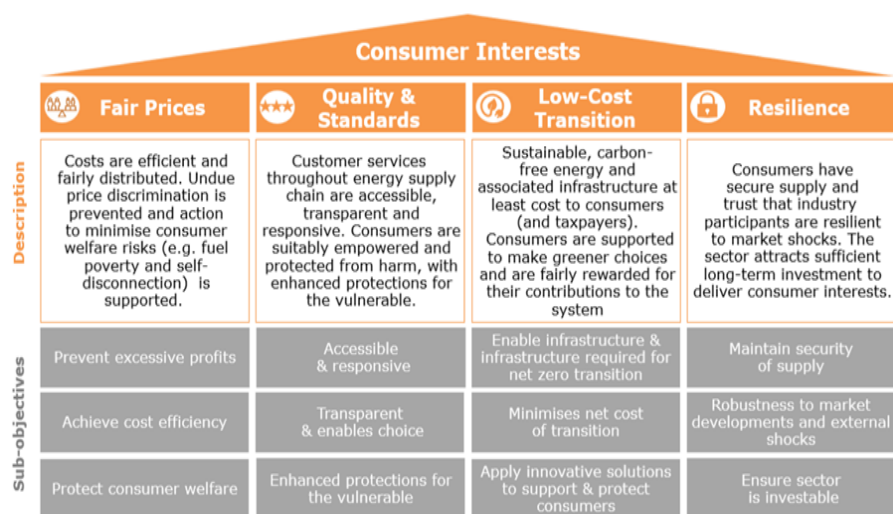
Ofgem's Consumer Interests Framework (CIF) can be used to map its decisions, framed against the CIF pillars: Fair Prices; Quality & Standards; Low-Cost Transition and Resilience. NGED's complementary Consumer Value Framework (CVF) – presented in Annex 2- sets out and specifies value constructs - socio-economic welfare, value of decarbonization and transition, value of resilience (VoLL) and Social Return on Investment (SROI) - which can be taken and applied to support decision making under the CIF as part of the Impact Assessment consistent with Ofgem's revised IA guidance.

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<sup>1</sup> [Utilities Act 2000](#) ([Section 5A])

<sup>2</sup> [RIIO-3 Sector Specific Methodology Decision for the Gas Distribution, Gas Transmission and Electricity Transmission Sectors | Ofgem](#)

Figure 1 – Ofgem’s Consumer Interest Framework



## Meeting Better Regulation Principles and Aligning Decisions within the Statutory Frame

Ofgem’s decisions are made in the context of its statutory duties, and in particular its principal duty. It is important stakeholders have a line of sight from Ofgem decisions to the fulfilment of its statutory duties and the analytical framework used to assess their impact on consumer value, measuring the trade-offs between different duties and decisions.

In order to promote transparency and accountability of decision making the process requires analysis of the “stated effect” of each decision against the relevant duty. This can utilise quantitative and qualitative assessments, balancing stakeholder needs for each decision with risks identified and mitigation actions put in place. Clearly setting out the stated effect will support any subsequent statutory consultation by Ofgem on any relevant licence modifications and ensure there is clarity to stakeholders as to the purpose and intent of each decision and Ofgem’s assessment of the effect it will have on consumers and stakeholders. Each decision as part of RIIO-ED3 should be clear on its proposed stated effect and how Ofgem has sought to weigh up trade-offs and balance its duties in arriving at the proposed position in relation to each and in the round.

## Designing an Impact Assessment Framework for RIIO-3

We outline specific considerations that Ofgem should undertake to augment and enhance the design of an IA framework for RIIO-3. The focus is on developing a clear evidential trail of the decision making process to improve the quality and visibility of decisions. Actively involving energy consumers and industry participants in the development, implementation, and monitoring of the RIIO-3 impact assessment is crucial to ensure that the framework effectively addresses their needs and concerns. The framework should aim to ensure that consumer needs and values are prioritised throughout the regulatory period, ultimately leading to improved outcomes and guided by the following key principles: Consumer-Centric Approach; Robust Data and Analysis; Mitigation and Enhancement Strategies and Consumer Engagement.

An outline of an indicative IA process from Ofgem’s current IA guidance has been included in appendix A3.1.

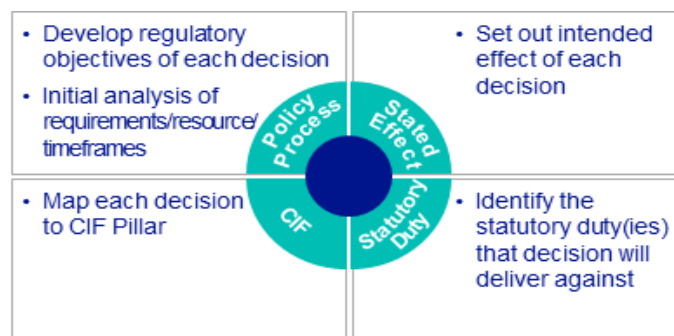
The flow diagram illustrates the policy process and analytical tasks required throughout the IA lifecycle from pre-concept to consultation and publication. This approach can be adopted alongside the proposed augmentations and analytical tasks described in this section to ensure that consumer value is at the centre of Ofgem policy making.

Ofgem should seek to enhance its existing IA framework for RIIO3 by augmenting its existing process with an increasingly evidential based approach, creating clear and demonstrable artefacts which provide insight and evidence of the stated effect of each decision, the analytical tools employed to assess the relevant data sets and the decision outcome weighted and ranked through the lens of its statutory duties and the CIF. This can complement the approach outlined in the ED3 Framework Consultation<sup>3</sup> of consideration of wider sources of value (see para 6.55).

## Developing the IA Process at Concept Stage

This augmented approach is best considered for the concept, development and consultation stages of the IA process. Set out below is the augmented approach for the Concept Stage of the IA process.

Figure 2 – Key Considerations in the IA and Decision Making Process



The analytical tasks and the resultant artefacts relevant to the IA concept stage will provide the evidence for the identification of the regulatory objective and intended effect of each decision, and how mapped to Ofgem's statutory duties and the relevant CIF pillar(s). The output required would involve:

- Decision Mapping: Map decision against the regulatory objective/stated effect/statutory duty/CIF
- Identification of Critical Success Factors (CSF): Identify critical success factors of each decision and how these can be measured and evidenced
- Optioneering: Create long list of options of decision variants that could meet the intended regulatory objective
- Identification of Potential Tools: Research and identify a range of analytical tools that could be relevant to each of the decisions (see Annex 2 for details) e.g.,
  - Cost-Benefit Analysis (CBA)
  - Multi-Criteria Decision-Making Analysis (MCDMA)
  - Scenario Analysis
  - Regulatory Impact Assessment (RIA)
  - Econometric Modelling
- Documentation of the Evaluation Process: Document the evaluation process, including the criteria used, the tools considered, and the rationale for the analytical tool selected to ensure transparency and accountability in the decision-making process.

<sup>3</sup> [Framework consultation: electricity distribution price control \(ED3\) | Ofgem](#)

## Developing the IA Process at Development and Decision Stage

Consistent with the IA guidance and HMRC MCDMA framework, the decision outcome should be evidenced against the range of options considered, including those proposed by interested stakeholders through the consultation process and the methodologies employed in determining and quantifying the proposed course of action.

The range of benefits and the critical success factors should be published, weighted, and ranked to provide visibility, and the opportunity to critically assess, the relative weightings and achievability of the desired outcomes and their relevance to each particular sector and stakeholder groups.

The analytical tasks and the resultant artefacts relevant to the IA development stage would provide the evidence for the data collection and stakeholder engagement, performing the analytical tests and assigning weight and ranks to the outcome. The output required would involve:

- Stakeholder Engagement: engage stakeholders (including consumers, industry participants, and government bodies) to communicate chosen analytical tools, evidence of selection criteria, option chosen and why
- Data Collection: gather data from relevant sources for incorporation into the chosen analytical tool, ensuring data and analysis is robust with a clear audit trail for its source, application and calculations applied in determining analytical output
- Data Analysis: using chosen analytical tool, quantify, rank and weight long list options to generate short list, evaluating each option against the CSF, using both quantitative and qualitative measures.
- Consolidate Scores: Combine and review the decision option scores and ensure a shared understanding among stakeholders.
- Assign Weights and Rank: Use 'swing weighting'<sup>4</sup> to determine the relative importance of each CSF and produce a ranked list of options based on overall performance.
- Conduct Sensitivity Analysis: test how changes in scoring or weighting assumptions affect the ranking of options to ensure the robustness of the final selection.
- Decision Consolidation: the assessment process needs to consider each 'major' decision in and of itself as well as examining the overall consideration / assessment in the round.
- Risk Mitigation: identify and assess intended and unintended consequences of each decision including any risks mitigation actions
- Assess Stated Effect: reassess stated effect of each preferred decision option based on CSF & risk metrics to ensure desired effect is achievable and not impacted by unintended consequences or contravention of statutory duties
- Overarching Objective Review: alongside assessment scoring & ranking of each individual decision provide assessment of how the decision in the round delivers the stated effect and supports the carrying out of relevant duties clearly identifying the trade-offs & weighting applied for any contradictory decisions and their stated effect

## Development of the IA Process at the Consultation Stage

The analytical tasks and the resultant artefacts relevant to the IA consultation stage would provide the evidence for consideration of consultation responses and any revision to the analysis or the approach

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<sup>4</sup> SWING weighting assigns a score with respect to a fixed upper score assigned to the most important attribute.

adopted as a result. The output required would involve:

- Evidence Collection: gather any additional evidence submitted as part of consultation
- Evidence Review: collect differing views or approaches proposed for data; analytical tool options; challenge to CSF and decision option scores
- Process Review: consider and assess suitability of any alternative approaches or analytical tools proposed by respondents not previously assessed
- Analysis Review: (re)run preferred analytical tools for any additional evidence or impact to sensitivity analysis provided through consultation with revised scores assessed against preferred options

## Summary of Approach to Impact Assessment as part of RIIO-ED3

When setting the decisions for RIIO-ED3, Ofgem's IA will need to consider a new and evolving set of requirements in terms of consumer needs and interest and the broader transition to a net-zero energy system, including:

- Calibrating customer service incentives and ensuring all customer groups needs and priorities are addressed (e.g. WSC, Vulnerable customers etc.) while not simplifying the output to a one size fits all.
- The need to adopt an analytical frame which supports strategic investment and considers alternative sources of value.
- Consideration for the implementation of pre-construction funding, similar to that set at ET, to allow DNO's to engage the supply chain at the earliest opportunity with certainty.
- Treatment of risk to recognise the challenges and changing risk dynamics observed across the infrastructure sectors.
- The continuing need and development of the digitalisation of the ED sector and the role this plays in facilitating the net-zero transition.
- Ensuring Workforce Renewal investments are facilitated to mitigate supply chain constraints and aging workforce in the short-medium term and potentially deliver wide-ranging economic benefits over the medium-long term.

Ofgem's own RIIO-3 Investment Decision Guidance (IDP)<sup>5</sup> represents a useful barometer for Ofgem to outline the needs case, scope, and benefits for each of its decisions and provide a quantitative and qualitative assessment of the stated effect of its decision(s) and insight into the decision-making process with the outcome evidenced against the range of options considered. Applying the existing IDP to the approach Ofgem adopts has the added advantage of clear consistency between the assessment as part of company business plans and the regulator's final determination and proposed licence amendments.

NGED wishes to see:

- Consultation on the approach to Impact Assessment for RIIO-ED3 based on best practice and consistent with Ofgem's revised guidance;
- Alignment between the approach to Impact Assessment, the Consumer Interest Framework and the application of assessment of consumer value – for example through the value constructs set out in NGED's accompanying Consumer Value Framework;
- An Impact Assessment at each stage of the process – in relation to the ED3 Framework decision, the SSMC and SSMD, the Draft Determination and Final Determination

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<sup>5</sup> [RIIO-3 Business Plan Guidance | Ofgem](#)

- The Impact Assessment to be updated at each stage for additional analysis to specifically show how it has taken into account stakeholder views and comments on earlier iterations
- The options considered and decisions proposed to be assessed both individually and holistically – i.e. key individual decisions on TIM, ODIs, Cost of Equity, Asset lives, and Regulatory depreciation should be assessed individually as well as in the round.
- We believe it is important RIIO-ED3 is not simply assessed against a ‘do nothing’ counterfactual of RIIO-ED2 continuance, but that it is clearly assessed against alternate options in relation to each major decision taken.
- That where decisions are proposed that Ofgem clearly sets out the stated effect of the decision and how it has weighed up and balanced its duties in arriving at that decision proposed.



## Appendix A3.1 – Overlay of enhanced Policy Process and Enhanced Analytical Tasks on Ofgem’s IA Process in the RIIO-ED3 Context

### A summary of an indicative IA process

