RIIO-T3 Draft Determination Question Response

SSEN Transmission

Document Classification | **Confidential**

Scottish & Southern Electricity Networks

TRANSMISSION

Contents

Summary

The key cost assessment challenge for Ofgem was to develop an appropriate cost assessment process that ensures consumers get a fair deal now and, in the future, and does not act as a blocker to the rapid pace needed to deliver net zero. In our view Ofgem's Draft Determinations result in material underfunding and the inability to meet our commitments to delivering Clean Power 2030 (CP2030) and UK Government Net Zero Ambitions.

Our plan and our ask on indirects and preconstruction funding reflect this need to scale in advance, and our plan is designed to allow us to deliver our full totex ask of c.£32bn during the T3 period, and more importantly, allow Ofgem to assess efficiency and set appropriate cost challenges as they can take a view on the total cost of delivery.

In December our plan presented a total expenditure investment of £22.3bn, which corresponds to projects with confirmed need as determined by previous Ofgem decisions i.e. Accelerating Strategic Investment Decisions (ASTI). [redacted]

Ofgem's outcome on indirects at Draft Determinations blocks the rapid pace needed to deliver net zero, and the provision of administrative reopeners to recover cost increases creates a material uncertainty. This means that we are not funded to continue to develop and ultimately deliver projects where the need has been approved, or the connections which are aligned with CP2030. Ofgem's historical leaning models do not recognise the significant growth required in the Scottish Transmission Owner (TO) networks areas. Ofgem must acknowledge that more funding is required, and models cannot set the required funding levels alone.

Business Support Costs

We believe Ofgem's processes for assessing Business Support Costs (BSCs) lack robustness and transparency, resulting in £289 million of underfunding for central functions such as Finance, Procurement, IT, HR, and Regulation. In our plan, we allocate all BSCs to the baseline, ensuring full funding for our £32 billion target during the T3 period, as these central costs cannot be assigned to specific projects. We have identified errors that must be corrected before the Final Determinations.

Error	Resolution
The decision for Ofgem not to fund growth BSCs and our full ex ante ask is wrong given the growth required to deliver CP2030 and that the growth is certain and approved by Ofgem.	Ofgem must correct the errors we have identified in the modelling suite (ETQ60), recalibrate the models to fund growth. To support growth Ofgem should either provide companies with BSC allowances with an ex-ante baseline that recognises our certain investment programme or provide BSC allowances including an additional uplift for growth and adopt a pragmatic reopener that allows BSC to be recovered in period (ETQ61). In all cases Ofgem must establish a gross cost, best view for indirects across the RIIO-T3 period, this will provide Ofgem with a view on the total BSC costs to deliver CP2030 and provide data to design funding mechanisms including uncertainty mechanisms.

Error	Resolution
Ofgem has made arbitrary decisions on data inclusion and timing of investments leading to incorrect conclusions on efficiency. Ofgem was wrong to rescale our submission to support a regression model that takes a reductive view of the T3 period resulting in a “baseline only” view of investment and FTE growth. Our Plan including CAPEX and FTE profiles, is designed to allow us to deliver our full ask of c.£32bn during the T3 period required to meet CP2030. This results in a material underfunding.	Our plan includes all the BSCs necessary to achieve our ambitious goals. If Ofgem intends to provide a "baseline" allowance, followed by mechanisms to recover the remaining costs, this approach could be acceptable. However, it is crucial that the initial baseline is accurately calibrated and that future recovery mechanisms are clearly defined and automatic. As part of the “Baseline” calibration, Ofgem must require all TOs to develop a bottom-up estimate of baseline FTEs for all years (including T1, T2 and T3), negating the need for arbitrary adjustments.
Ofgem intended to provide a growth uplift via a combination of regression and forward-looking FTE ratio and trend analyses. The modelling combinations by Ofgem fail to achieve this.	Instead of the 50/50 weighting applied by Ofgem between the econometric and TO-specific trend analysis, we recommend a fully integrated approach that combines both parts of Ofgem’s methodology. Within this approach, historical BSC predictions are used as the starting point for the 1:1 indexation to baseline FTE growth. We provide details in ETQ60.
For certain IT & Telecom (IT&T) costs Ofgem’s investment evaluation is based on subjective criteria where the necessary information requirements were incomplete or only clarified after the assessment was concluded. This is not a rational or fair approach. The outcome from this approach results in a material underfunding which will make delivery impossible at current scoping.	Ofgem must re-evaluate our submission and the IT&T assessment framework. Ofgem must adopt our amendments to make the assessment more proportionate and justifiable (ETQ52.)

Closely Associated Indirects

Ofgem’s draft determination outcome on Closely Associated Indirects (CAI) unfairly penalises our submission, adds unnecessary regulatory complexity, and underfunds essential preconstruction activities and overheads for CP2030. Underfunding of preconstruction will increase the risk to consumers and exposure to delays and overspends. We believe Ofgem’s processes lack robustness and transparency, resulting in a £344m shortfall in funding compared to our plan submission and increases regulatory burden. We have identified errors that must be corrected before Final Determinations.

Error	Resolution
Ofgem's modelling demonstrates a wide range of efficiency scores, such as a 240% gap between the most and least efficient TOs, this is indicative of an erroneous modelling approach - likely caused by omitted variables or missing data - rather than true differences in CAI efficiency.	This must be resolved by Final Determinations by ensuring comparable data across TOs. Ofgem must establish a gross cost best view for indirects across the RIIO-T3 period, this will provide Ofgem with a view on the total CAI costs to deliver CP2030 and provide data to design funding mechanisms including uncertainty mechanisms.
Ofgem has relied too heavily on econometric modelling based on (historic) sectoral benchmarking with limited adjustments for growth and the diverse challenges for each company. This results in a material underfunding.	Ofgem must reconsider the modelling approaches excluding regression modelling entirely or applying a higher weighting (at least 75%) to the TO-specific ratio analysis. This would appropriately reflect Ofgem's objectives: controlling for historical efficiency while more effectively capturing each TOs distinct forward-looking cost pressures. We detail our approach in ETQ57
Ofgem added CAI allowances on a Use it or Lose it basis alongside baseline CAI to support growth, but unclear guidance and complex funding arrangements make it unlikely that this goal will be met. There are gaps in the provision of indirect preconstruction funding and Ofgem undervalues the growth required for non-project not so CAIs	Ofgem must provide prompt guidance on which cost can be recovered across the various CAI mechanisms and ensure all required CAIs can be funded. We have identified gaps and uncertainties in funding which must be closed in ETQ26 and ETQ58. This should include clear rules and parameters for all CAI reopeners in the period, including future strategic project cost assessments.

Managing Uncertainty

Ofgem has made unsupported disallowances and altered the proposed RIIO framework, increasing downside risk and reducing network companies' ability to manage uncertainty. During the RIIO-T3 period network companies will continue facing macroeconomic challenges such as supply chain disruption, market shocks, policy changes, labour shortages, and geopolitical effects, all of which contribute to increased cost volatility. Ofgem's proposed regulatory framework does not recognise the external operating environment facing companies.

Error	Resolution
Ofgem has failed to have regard to key risks faced by TOs, instead opting to introduce a novel approach to use the Totex Incentive Mechanism (TIM) to absorb risk of upward cost. By failing to target a balanced settlement, this materially increases the likelihood of TOs being underfunded and removes delivery efficiency incentives to control costs.	Ofgem utilises the TIM function principally as an efficiency incentive and adopts straightforward reopener and true-up mechanisms alongside ex-ante allowances to address key risks. Further details are provided in OVQ18 (RPEs), ETQ33 (Volume Driver), and ETQ50 (Risk and Contingency) and ETQ70 (Design of the TIM).
Ofgem has proposed capping risk allowances at 5% of direct project costs for RIIO-T3 projects, a reduction from the 8.2% average agreed in RIIO-T2. This cap is inconsistent with the current market context and contradicts guidance and best practice project management from HMT and other authoritative sources.	We have confirmed that the R&C uplift percentages applied for our projects, an average [redacted]% of Direct Costs, aligns with best practice guidance from national and international cost estimation bodies. Ofgem must adopt our approach as presented in our plan and ETQ50
Ofgem intends to use Real Price Effects (RPE) to address market volatility. The RPE proposals from Ofgem do not address cost volatility and the resulting indexation is a minor update to the RIIO-T2 process, which leaves TOs exposed to market driven volatility out with our control.	Ofgem must implement a flexible RPE mechanism for RIIO-T3 to manage market fluctuations and include a true up for under recovery. If the mechanism is weak this will compromise delivery of network capability and resilience, affecting both the goal of delivering clean power by 2030 and the need for a robust network.
Ofgem has maintained the Ongoing Efficiency (OE) as established for the RIIO-ET2 price control settlement and this fails to consider the current delivery environment. resulting in an unrealistic and overly ambitious benchmark during a period of intense construction activity in the UK's history. Notably, the current OE challenge undervalues the operational challenges, faced by TOs throughout RIIO-3, thereby undermining efforts towards achieving CP2030 objectives.	Ofgem must correct the errors we have identified in OVQ19 and set the OE target at a lower level, aligned with our Business Plan Submission of 0.1%, to enable TOs to successfully meet their CP2030 objectives.

Incentives

Ofgem must deliver a credible incentive package. A more robust incentive package is needed to provide a credible opportunity for well-performing networks to earn a return, otherwise the baseline return will need to be increased accordingly. The proposed incentives package is currently ill-defined, with unclear targets and performance metrics, making it difficult for investors to assign material value or assess the risk profile of RIIO-T3:

- **CSNP-F Delivery Incentive:** Will have limited effectiveness during RIIO-T3, as it largely applies to projects scheduled for delivery post-2030. As a result, its influence on investment decisions and performance outcomes within the RIIO-T3 period is minimal, undermining its intended purpose.
- **Connections Incentive:** Is contingent on a successful implementation of connections reform and assumes no material delays. There is a risk of greater downside than upside if targets are not realistically deliverable.
- **Innovative Delivery Incentive:** The panel-based assessment is too subjective and discretionary to assign material value. This incentive should be directly linked to a defined share of proven customer value from innovations. The design of the mechanism does not appear to be able to deliver the size of contribution to returns as Ofgem suggests (i.e. 50-100bps).
- **Totex Incentive Mechanism:** Ofgem's proposal to use the TIM as a risk mitigation tool removes delivery efficiency incentivisation and materially increases downside risk.
- **Other Incentives:** Currently, we do not see material potential for return enhancement through other mechanisms in the RIIO-T3 period i.e. Energy Not Supplied (ENS) and Insulation Interruption Gases (IIF).

The current framework risks falling short of investor expectations and undermining the sector's ability to attract the capital required. This is set out in further detail within our Finance Annex.

1. Overview Questions

Introduction

OVQ1. We would welcome any views on the enduring role of the ISGs during RIIO-3 and for future price controls.

Independent Stakeholder Groups (ISGs) provide vital and informed independent perspective and challenge and as such, should continue to play an enduring role throughout RIIO-3 and in future price control periods.

The ISG's contribution to date has delivered significant value to the business, particularly through:

- Providing independent challenge and perspective, which gives us confidence in our plans. Sharing diverse and informed views, helping to shape our thinking and ensure alignment with changing stakeholder expectations.
- Enhancing transparency and accountability, which has supported trust and confidence in our decision-making processes.

Our ISG and the expertise of its members has been instrumental in the development of our RIIO-T3 business plan, offering critical insights and constructive feedback, which has directly influenced key elements of the content of the plan as well as the strategies which underpin it.

Looking ahead, we see a continued strategic role for ISGs as we transition into the delivery phase of RIIO-T3. Ongoing engagement with our ISG will help ensure we remain cognisant of and responsive to stakeholder needs, maintain high standards of performance, and deliver long-term value for consumers.

Outputs and incentives

Cross-sectoral outputs

OVQ2. Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?

Yes. We agree with Ofgem's proposed position to retain the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3.

It is challenging to provide detailed commentary on the proposals for Annual Environmental Reporting in the absence of a RIIO-3 Environmental Reporting Guidance document, which Ofgem notes will be consulted on following Final Determinations.

We also note that in a recent meeting of the RIIO-3 CSWQ17 – Environment group, Ofgem's position differed slightly from the position in the Draft Determinations. In particular, it was indicated in the July 29th meeting that whilst the KPI element of AERs would be standardised across TOs, there would be few to no

standard requirements on the commentary element of AERs. This differs from the position set out in section 4.9 of the Overview document.

Whilst we broadly support the principle of standardising KPIs for ease of comparability, we agree with Ofgem's emerging position that accompanying commentary should have fewer restrictions and requirements, enabling TOs to provide commentary that meets the needs of a wide range of stakeholders, including but not limited to Ofgem.

In relation to standardised KPIs, we understand from the RIIO-3 CSWQ17 – Environment group that Ofgem intends to require BNG unit costs to be reported. We caution that this is not currently possible, would require significant additional resource to calculate, and would mask important contextual information, limiting the data's usefulness for comparison. This is for a number of reasons, including:

- The cost of land differs significantly across Great Britain and across each TO's license area. One KPI would mask this important contextual information.
- Different habitats require different interventions and thus different costs, limiting the value of comparing unit costs of delivery.
- The cost of delivering BNG activities varies depending on whether restoration is delivered on site or off site, on the partners we work with, and on the location. For example, two BNG projects otherwise alike in habitats, partners and land costs may differ in cost if one is more remote, pushing up the costs associated with accommodation and travel for delivery partners.

We maintain our offer, extended at the RIIO-3 CSWQ17 – Environment group meeting, to discuss these challenges in more detail with Ofgem and to identify alternative ways to achieve Ofgem's aims.

We also maintain our position, shared at SSMC, that any KPIs required in the AER should be limited to those that are material to each reporter, and that the resource implications of providing this data should be considered when these KPIs are set.

We look forward to receiving further detail when the RIIO-3 Environmental Reporting Guidance document is published and will provide further response at consultation.

OVQ3. Do you agree with our consultation position to create a new common mechanistic PCD for ZEV and associated infrastructure costs?

We strongly disagree with Ofgem's proposal of combining the roll out of Zero Emission Vehicles (ZEVs) and the associated charging infrastructure into one mechanistic Price Control Deliverable (PCD) as these are two very different activities and deliverables. The proposal for a PCD is not proportionate in terms of value, and mechanistic marking of equipment offers no value to consumers. As signatories to EV100, SSE is committed to decarbonising our fleet and to installing the charging infrastructure required to support this, in our view this can be adequately tracked and reported on via the Annual Environment Report process.

Associated EV Charging Infrastructure

We do not agree with the creation of a new common mechanistic PCD for associated infrastructure costs. Our proposal to deliver 28 electric vehicle chargers across 14 sites is certain and of low materiality. We believe creating a mechanistic PCD for EV chargers is unnecessary and will also create regulatory reporting burden. We also note that across Draft Determinations, more complex and higher materiality projects do not have a PCD attached and would welcome a proportionate approach. We do not believe it to be proportionate to apply a PCD to a project with a cost under £15m as per Ofgem's proposal in their SSMD publication.

Zero Emission Vehicles (ZEV)

We do not agree with the introduction of a common mechanistic PCD for Zero Emission Vehicles (ZEV). There is uncertainty around the availability of ZEVs suitable for our network operations and this will continue to pose a problem for us into RIIO-3. As part of our 11.8 V&T memo BPDT submission we provided a breakdown of small panel, medium panel and large panels vans and all other ZEV types to be replaced and or added in RIIO-3, including vehicle weights. This included vehicles for non-operational staff, which we expect to be the majority of ZEVs deployed during RIIO-3, rather than operational vehicles.

Operational Challenges Associated with ZEVs

SSEN Transmission operate the transmission network over a quarter of the UKs landmass, crossing challenging topography, terrain, elevation and climate. Our operational teams are frequently out for extended duration to remote sites, with no means to charge vehicles. In remote areas in the North of Scotland local charging infrastructure is unavailable and insufficient to support the quantity of vehicles without significant disruption to our operations or local stakeholders.

Currently, there are no suitable EV options due to market availability and our operational requirements. Based on the current known and proven range the map shown in **Figure 2** illustrates a part of our network and the geographic range achievable with existing EV technology on a single charge (highlighted in yellow). Please note however, that this does not account for cold climate conditions, adverse terrain, payloads of up to 1 tonne or towing of up to 3.5 tonnes, all of which are known to have an impact on the range of an EV.

The safety of our operational teams is of paramount concern, and the use of EVs in remote locations presents a risk of stranding. Due to the nature of access routes and trackways used to reach the network, vehicle weight and ground pressure are key considerations. As EVs are heavier than ICE vehicles, there are performance concerns that may lead to increased maintenance of roads and trackways, potentially requiring revised landowner access agreements and the construction of additional trackways.

There are further additional cost pressures, including time spent charging is an additional nonproductive labour cost. Travel and fatigue introduce further administrative overheads, including hotel bookings and allowances, both of which increase the cost of managing, maintaining, repairing and operating the network. In a recent example specialist equipment was mobilised from Dundee to Dounreay. Utilising an ICE van this was completed in less than two days, with no overtime and one overnight hotel stay. With an EV vehicle, the same task would have required three days, incurred overtime and two nights in hotels.

As a business we horizon scan and monitor new technology as it comes to the market which we evaluate against our operational needs. Within the 4x4 pickup class there are limited options available, however we do note that in development is the Isuzu D-Max E., The initial advised range of 160 miles is a concern. There is a real concern that the range would be further impacted by towing, laden, adverse ground conditions and cold weather conditions. Based on initial information, it is likely that it will not be a suitable operational vehicle until 2028 with 2nd generation battery technology improving the vehicles range.

We are also aware of several EV van developments, with larger batteries and improved technology. Performance and suitable of these will need to be proven, particularly with loads and towing, as they come to market.

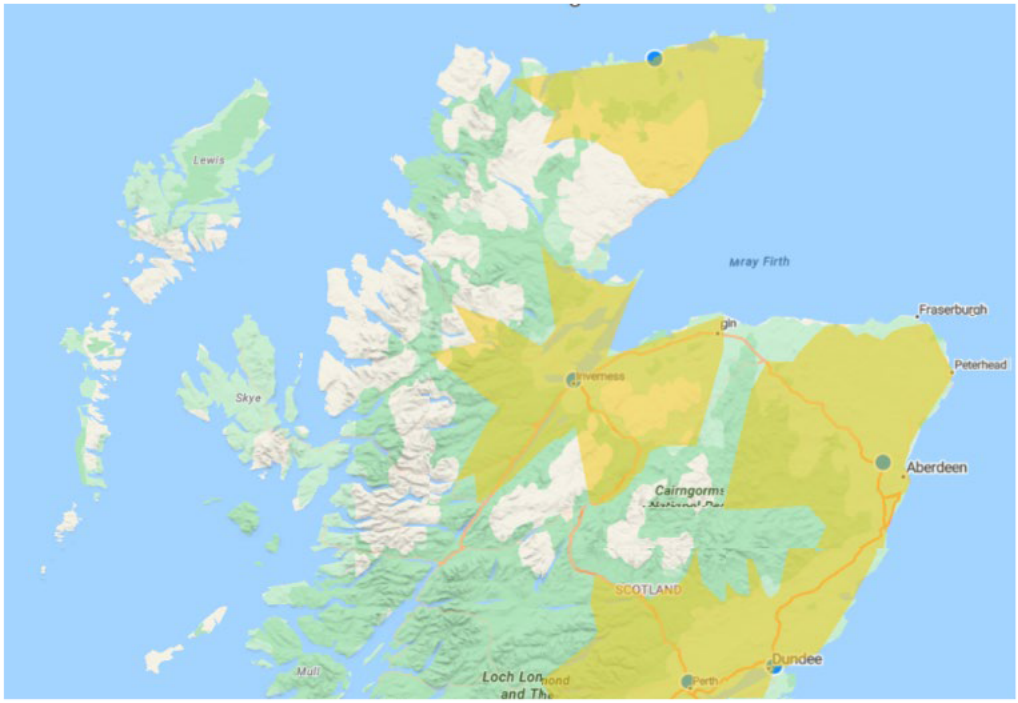


Figure 2 – OVQ3 EV Coverage Map

OVQ4. Do you agree with our proposed approach to measuring Baseline Network Risk Outputs and our application of the NARM mechanism?

No. We proposed a practical approach designed to anticipate the likely need for future assessments and to reduce associated uncertainty. This approach was closely aligned with T2 policy developments, particularly the introduction of the +/-5% UCR threshold confirmed under the Clearly Identifiable assessment.

It also addressed concerns shared by both SSEN Transmission and Ofgem regarding the limitations of the automatic funding adjustment mechanism, which has required additional intervention to ensure proportionate outcomes. While we align with Ofgem's calculation and total BNRO value, we take a different view on its categorisation. As a result, we do not agree with the overall treatment, or the approach proposed.

Our aim was to identify, at the point of setting the price control, all schemes expected to fall outside the UCR threshold. This would have avoided the need for later adjustments and mitigated the risk of windfall gains or losses.

The first indication that Ofgem would not support this approach came with the reclassification of projects into the A1 category. However, this decision was not accompanied by an explanation of why the alternative was considered preferable. As a result, we were left without a clear understanding of how our reasoning had been interpreted or how the categorisation decision was reached. We have since submitted a related DDQs (SSEN035) requesting clarification.

We have also identified where projects deferred from T2 to T3 have now been given a standalone PCD outside of NARM. Our full view on this approach is given in the response to SHETQ1.

Given that our proposal was grounded in established policy and methodology, we would welcome further explanation, specifically on why our approach was deemed inconsistent with policy intent and why A1 categorisation is considered more appropriate.

OVQ5. Do you agree with our proposed approaches to calculating the funding adjustments and to the application of penalties?

No. This reflects a continuation of the T2 framework, which has required increased intervention due to limitations in the effectiveness of the original mechanism. This context played a key role in our decision to ringfence certain projects within the A3 category. Further detail is provided in our response to OVQ4 and in the accompanying narrative within the T3 NARM BPDT submission.

We have also demonstrated that the current NARM funding adjustment and penalty mechanism is fundamentally flawed. This view is supported by analysis conducted by WSP (appointed by Ofgem to undertake analysis) and presented to licensees on 26 February 2024. That analysis reinforced our conclusion that the mechanism is not fit for purpose. During T2, our provisional workings indicate only one of 25 baseline projects is expected to fall within the UCR threshold. This is not consistent with the original expectation that the Clearly Identifiable mechanism would be used only in exceptional cases. It is now apparent that it will apply to the majority of projects.

As similar patterns are emerging in the RIIO-T3 portfolio, we adopted a proactive approach to mitigate these issues. The need for such measures further underscores our concern that continuing with the current mechanism is likely to reproduce the same problems experienced in T2.

Our concerns with this approach have been compounded by the need to seek further clarification, even with the guidance provided by Ofgem. We reiterated this feedback in our consultation response on 9 May 2025.

The Over-Delivery scenario would benefit significantly from a clear supporting narrative that outlines how the examples have been calculated. We are still awaiting guidance on what constitutes efficient costs, and without this clarity, it remains challenging to make fully informed decisions regarding asset management and project planning.

Our understanding has also been hindered using PDF format for sharing worked examples. An Excel-based presentation would better illustrate how the figures interact and inform one another. We encourage Ofgem to use upcoming engagements with TOs to collaboratively work through these examples.

As stated in our consultation response dated 16 August 2024, we believe the methodology lacks sufficient detail, especially in how partial over/under-delivery, as well as over-delivery allowances, will be determined. This ongoing uncertainty poses a risk that if these criteria are only revealed after funds have been committed, we may miss the opportunity to gather and present the necessary supporting evidence that could have been prepared had the requirements been known in advance.

We agree that licensees should justify any deviation from output targets at the end of the price control period. However, the extent to which the Clearly Identifiable Over or Under Delivery (CIO/UD) mechanism is now expected to be applied risks turning it into the default assessment method, rather than an exception. While Ofgem has acknowledged feedback regarding the regulatory burden this creates, it has not addressed these concerns in maintaining the mechanism's use. This includes the rejection of our proposal to ringfence certain projects within the A3 category.

OVQ6. Do you agree with our proposed approaches to improving the NARM framework?

We support the overarching objective of enhancing NARM functionality. However, we believe that fixing the mechanism should be put ahead of adding more asset categories. The benefits remain unclear, and

there is a risk that these proposals could undermine licensees' individual risk management strategies that are often tailored to the unique characteristics of each network.

There is also concern about the lack of detail in Ofgem's proposals to improve NARM functionality. We are still awaiting further details of Ofgem's requirements.

Our experience with the development of Network Output Measures (NOMs) involved intensive collaboration between licensees and Ofgem, including near-weekly meetings. We anticipate a similar level of engagement will be required for future NARM improvements, which raises the challenge of coordinating months of cross-sector collaboration among TOs.

While the introduction of the Information Gathering Plan (IGP) and other measures are expected to bring some improvements, these are likely to fall short of what is needed. Fundamental issues remain unresolved, particularly with the Funding Adjustment and Penalty mechanism, as well as the LTRB calculation. This includes inconsistencies in how the Long-Term Risk Benefit (LTRB) is applied across the TO sector under the common methodology.

Introducing additional asset categories at this stage would likely worsen the challenges associated with using the NARM mechanism. We support an approach that prioritises resolving the above issues first. Doing so would be both more efficient and deliver better value for consumers. It would also avoid the risk of prematurely expanding the asset base, which could necessitate costly methodological enhancements across a broader range of asset categories.

The success of any proposed changes will depend significantly on the availability of appropriate and proportionate funding. Currently, there is a lack of clarity regarding how these changes would be financed, which makes it challenging to fully assess their feasibility and potential impact.

We are supportive of implementing changes where it is clearly demonstrated that funding is both available and aligned with the scale of the proposed enhancements. However, we have not identified a direct reference to this funding provision. Instead, Ofgem has indicated that licensees should be able to accommodate the introduction of tCNAIM through T3 and in preparation for T4.

While the proposal maintains the T2 regime, it also introduces targeted improvements aimed at enhancing cross-licensee alignment, as well as strengthening assurance and reporting requirements. Without a clear commitment to proportionate funding, there is a risk that licensees may be expected to deliver significantly more without the necessary resources, potentially undermining the effectiveness framework.

However, we do not oppose all elements of the proposals. The introduction of the IGP and the Engineering Guidance Document (EGD) presents an opportunity to improve the quality and consistency of data collection.

However, expecting these improvements to significantly enhance NARM functionality would be a fundamental misunderstanding. These changes address input quality but do not resolve the core issues that arise after risk has been calculated. As such, the overall reliability and effectiveness of the NARM framework remain in question.

OVQ7. Do you agree with our proposal for the physical security PCD?

We agree with Ofgem's proposal for the physical security PCD.

Other policy areas

OVQ8. Do you agree with our approach taken to review of the Climate Resilience strategies?

We agree in principle with the approach taken to review the Climate Resilience strategies, particularly the emphasis on ensuring network companies can demonstrate preparedness for both current and future climate risks. We welcome Ofgem's commitment to climate resilience as a critical regulatory priority under RIIO-3.

We are pleased that Ofgem acknowledged our use of an adaptation pathways approach and the integration of outcomes from our Climate Risk Assessment into investment planning. This recognition reflects our efforts to adopt a structured and forward-looking framework to assess and mitigate climate-related risks. Our Climate Resilience Strategy received no supplementary questions following submission of the business plan, which suggests Ofgem understand and have not queried our strategy.

Flexible mechanisms

Mechanisms which address resilience must have a broad enough scope to allow us to respond to changing circumstances quickly and with flexibility, in an evolving area such as climate. TOs are expected to continually progress against their requirements therefore additional investments may arise from these works which will need to go through the Resilience Reopener. As new priorities emerge, we may require further funding.

Therefore, as Ofgem have historically recognised in their previous RIIO-T3 publications, this area is subject to continuing development, and for this reason the Resilience Reopener must be broadened to recognise the dynamic nature of the resiliency area.

This is further addressed in our response to the Resilience Reopener, OVQ17.

Acknowledgement of Network-Specific Contexts

We support the differentiated review approach that accounts for the unique geographical and operational contexts of each network company. Climate risk profiles in the north of Scotland differ substantially from those in other areas, and we welcome that Ofgem's assessment has acknowledged different focuses across network types and regions.

Recognition of Maturity and Integration

Ofgem's review has appropriately noted the variation in depth and maturity among submissions. We agree that highlighting how strategies are integrated into investment planning and operational decision-making is critical. We believe our strategy demonstrates clear alignment between risk identification, residual risk assessment, and capital allocation.

Forward-Looking Expectations

We support Ofgem's proposal for continued annual reporting and scenario planning updates, including stress-testing and adaptation pathways. These are necessary to drive continuous improvement and reflect the evolving nature of climate science and risk projections.

Guidance Development

We support Ofgem's intent to engage network companies in the development of guidance on climate resilience reporting. We believe collaborative development will ensure that guidance is both practicable and reflective of sector-wide best practice. However, we note the delay in publication may cause some uncertainty and encourage Ofgem to provide interim direction where possible.

Licence Modification Timing

We understand Ofgem's rationale for not introducing a licence obligation immediately. We would welcome the opportunity to engage in the proposed consultation to help ensure the finalised obligations are proportionate and outcome focused.

Funding

We welcome Ofgem's proposal to fund the majority of our EAP ("Sustainability Action Plan" or SAP) commitments and note that delivery of SAP actions to advance the maturity of our climate resilience approach rely on funding from Closely Associated Indirects (CAIs). However, Ofgem's position to fund the majority of our EAP commitments is fundamentally misaligned with the assessment of our CAIs and Business Support Costs (BSCs). The successful delivery of our EAP commitments depends on securing the necessary allowances to enable us to achieve our ambitious sustainability goals.

Continued collaboration will be key to ensuring that expectations remain ambitious yet achievable, aligned with the goal of a resilient and secure electricity network in the face of climate change.

In summary, we agree with the overall direction and approach Ofgem have taken in reviewing climate resilience strategies and appreciate the constructive engagement to date.

OVQ9. Do you agree with our views on the Workforce Resilience Strategies?

We welcome Ofgem's recognition of the workforce challenges facing our sector, including skills shortages, an ageing workforce, and the need to improve diversity and retention. Our Workforce Resilience Strategy for the RIIO-T3 period is built to address and mitigate these challenges. Our strategy sets out a comprehensive approach built around four "People Ambitions" to address these issues and build long-term capability.

Key measures include continued investment in training, achieving ISO 45003 certification, and maintaining at least 5% of our workforce in "earn and learn" roles. With a projected 25% workforce growth, we also prioritise early careers development, flexible working, and succession planning to mitigate the impact of retirements. These actions are supported by our Strategic Workforce Planning Tool to ensure transparency and accountability.

We also recognise the importance of collaboration and have highlighted multiple ways in which we will engage our supply chain and other influential parties across government, other Transmission Owners (TOs) and skills organisations as part of our stakeholder engagement as these groups will be instrumental in us all delivering our people ambitions.

We fully support Ofgem's call for continued collaboration with government and industry and remain committed to delivering our Workforce Resilience Strategy to secure a skilled, inclusive, and future-ready workforce.

OVQ10. Do you agree with our views on the Supply Chain Resilience Strategies?

We broadly agree with Ofgem's views on Supply Chain Resilience Strategies but disagree with the claim that no network company, including SSEN Transmission, has proposed specific measures.

We welcome Ofgem's recognition that our strategy meets Sector Specific Methodology Decision (SSMD) requirements and supports net zero goals with implementation already underway through supplier engagement, framework development, and strategic partnerships. We support Ofgem's emphasis on PCF and Advanced Procurement Mechanism (APM) as key for securing long-term capacity.

Contrary to Ofgem's comment on the lack of specific measures, our RIIO-T3 Supply Chain Resilience Strategy presents a clear and actionable framework built around four enablers:

- Evidence-led Procurement,
- Building Relationships,
- Commercial Resilience, and;
- Good Governance.

These are actively operationalised through new framework procurements, equipment orders under APM, enhanced supplier engagement via Supplier Relationship Management (SRM) and a Supply Chain Forum, and the creation of a Procurement & Commercial Advisory and Assurance Forum. We are also refining our Commercial Strategy and Efficiency Framework to ensure transparency, cost control, and agility.

We disagree that RPE alone can fully protect against current cost pressures. As outlined in our response to OVQ18, underestimating RPEs poses a material delivery risk, particularly given the scale of Pathway to 2030, global supply constraints, inflation volatility, and the need to remain competitive. We need a more flexible and layered cost protection approach.

We agree with Ofgem that collaboration is essential. We are working with other TOs, NESO, and industry bodies on joint procurement, shared risk frameworks, and UK-based manufacturing. We are also collaborating extensively with our key delivery partners, building sector capacity with a focus on local content and UK Investment.

We welcome further dialogue with Ofgem to clarify expectations and share best practices across the sector.

Business Plan Incentive

OVQ11. Do you agree with the equal weightings applied per criteria/rating for the 'Clarity scorecard' and the 'Business Plan Commitments scorecard' for the Stage C assessment?

We agree with the weighting in the 'Clarity Score' card, but we do not agree with the weightings for the 'Business Plan Commitments'. Deliverability and Stretching Performance need to reflect the frontier performance of companies and wider context of delivering RIIO-T3 alongside ASTI. Therefore, stretching performance and deliverability should be weighted higher.

We believe that Ofgem's application of weightings in its Stage C assessment is overly subjective. Unless this is resolved, the weightings for the BPI framework will be fundamentally flawed.

OVQ12. Do you agree with the weightings applied per outcome for each sector for use in the Stage C - Business Plan commitments assessment?

No, we do not agree with Ofgem's weightings. In our view, more weighting should be placed on infrastructure resilience. This is necessary since much of the infrastructure required to deliver a low-cost transition will be largely delivered outside the RIIO-T3 business plan submission via ASTI, LRR and volume driver projects.

Secondly, we disagree with Ofgem's application of weightings applied within its Stage C assessment are based on fundamental errors and are inherently subjective. Until Ofgem addresses its errors in Stage C of the BPI assessment any weightings will consequently be flawed.

Managing uncertainty

OVQ13. Do you agree with the use of a default materiality threshold and its level?

No, we do not agree with the use of a default materiality threshold, or the value of the threshold set as part of Draft Determinations. Our primary concern is with the implications for reopeners under the uncertainty mechanism framework and specifically on connections progressing via the LRR administrative reopener. We also strongly disagree with a materiality threshold of £22m (£5.6m when multiplied by the TIM) before a project can be considered via a reopener mechanism. This is a significant increase from the value of £7m in RIIO-T2 and is without any rationale for the 300% increase in threshold value. We urge reconsideration of this threshold and request further justification for the proposed increase.

This approach fundamentally alters the risk profile associated with the uncertainty mechanism framework from RIIO-T2 to RIIO-T3 and the increased cost exposure to SSEN Transmission. As part of the DD, Ofgem is consulting on moving the TIM from an efficiency incentive to a risk mitigation tool, which we discuss in ETQ70 in more detail. However, through this materiality threshold proposal, Ofgem is assuming that the TIM can be used as a funding route for projects that are determined to be needed and delivered within the price control period. The TIM cannot be used to provide full funding for economic or efficient costs and results in deliberate downward bias in the incentive package if we cannot progress projects via UMs. We recommend that there is further consideration of how adequate funding is achieved under these proposals.

We understand the need for a materiality threshold to reduce the regulatory burden associated with smaller projects during the price control period. However, we strongly disagree with Ofgem's statement that the threshold is there to "ensure companies manage some of their cost risk". Projects progressing through the UM often come from third party requirements, such as from customers, Government or NESO, and are therefore not within the TO's control.

Value of Threshold & Risk Aggregation

Using 0.5% of Base Revenue divided by the TIM is not suitable during a time of rapid growth. No other price control has faced this rate of expansion and the method links network expansion to higher project thresholds but overlooks that necessary projects are funded through the TIM instead of Ofgem allowances.

Ofgem's materiality threshold proposal also overlooks the cumulative risk of delivering several projects that fall below the high threshold. As illustrated in Table 1 below.

Table 1 - OVQ13 Project Aggregation

Number of Projects	Total cost (Based on £21m per project)	TO exposure post TIM
5	£105m	£26.3m
10	£210m	£52.5m
15	£315m	£78.8m
20	£420m	£105m

In line with Ofgem's shift to using RoRE to value the BPI and Output Delivery Incentives, we believe that the materiality threshold should be set at 0.1% of RoRE. This equates to approximately £10m and still achieves the policy intent of minimising the use of reopeners while also reducing the potential cost exposure for TOs.

[redacted]

Default Threshold

We do not agree with applying a default materiality threshold across RIIO-T3 mechanisms, especially for reopeners related to resilience projects driven by government requirements like CNI PSUP upgrades and flood mitigation. These initiatives are unpredictable at the start of the price control and often fall below current thresholds.

A fixed materiality threshold for resilience-based reopeners departs from precedent set in RIIO-T2, where Ofgem funded networks accordingly given the externally driven nature of these costs. It is unreasonable for TOs to cover 25% of the expenses for essential, government or third-party mandated projects that support network resilience. The table below provides further details.

Table 2: OVQ13 Reopener Thresholds

Reopener	Threshold
Resilience	£0m (No Threshold)
Subsea Cable	£10m
Cyber IT/OT	£0m (No Threshold)
CAM	£0m (No Threshold)
Non-Load Reopener	£10m
Buildings Reopener	Bespoke Threshold
Load Reopener	Bespoke Threshold

Further information on each on the reopeners can be found in the specific responses to the ETQ or SHETQ within our wider response.

Cross-sectoral uncertainty mechanisms

OVQ14. Do you agree with out proposed amendments to the CAM for RIIO-3?

We agree with the intent to make the CAM more flexible and responsive, but we have three main concerns about the practical implementation of the authority trigger, the role of NESO, and the lack of clarity on scope and timing.

1. **Authority Trigger – Acceptable only with clear governance.** We accept the inclusion of the Authority trigger, but only on the condition that NESO must secure agreement from all affected

licensees before submitting a recommendation to Ofgem. Without this, TOs risk being drawn into speculative or disruptive proposals that lack delivery or commercial grounding.

2. **NESO's Role – Boundaries must be defined** NESO is not always the most suitable candidate to determine who is "best placed" to deliver a project. Ofgem should provide clear guidance on what constitutes a valid CAM proposal and how "best placed" should be assessed. As we noted in our Business Plan (Section 3.4, Appendix B), delivery capability and commercial readiness are critical to consumer value.
3. **Scope and Timing – Avoid disruption to live projects.** The current proposal lacks clarity on what is in or out of scope. We recommend Ofgem define a clear eligibility window (e.g. pre-FID or pre-contract award) and require a CAM impact assessment with each submission.

Lack of Use - Incentivisation required

We recognise that Ofgem is seeking to encourage Transmission Owners (TOs) to adopt this mechanism, and we value Ofgem's commitment to safeguarding consumer interests while promoting whole system thinking. Whole system approaches are already integrated within our operations; for instance, our extensive engagement with SSEN Distribution during the Port Ann to Crossaig project was reflected in their successful delivery.

Ofgem's SSMD and Draft Determinations have confirmed limited use of this reopener in RIIO-T2, with no incentives currently in place for TOs to utilise it. We believe that introducing appropriate incentivisation would be necessary to motivate network companies to change behaviours and increase adoption of this mechanism.

We strongly support the principle of a more flexible CAM in RIIO-T3, provided it is supported by the guardrails we have recommended. Robust governance regarding authority triggers, clear boundaries for NESO's role, and enhanced clarity on scope and timing are essential. Without these elements, there is a risk that CAM could lead to inefficiency and conflict instead of serving as a tool for optimal system performance.

OVQ15. Do you agree with our proposed design of the NZARD UIOLI? – GD and GT

This question relates to the gas sectors and therefore do not have a specific view. However, we believe that appropriate funding mechanisms to progress net zero driven projects should be retained across all sectors.

OVQ16. Do you agree with our proposed design of the NZASP re-opener? - GD and GT

This question relates to the gas sectors and therefore do not have a specific view. However, we believe that appropriate funding mechanisms to progress net zero driven projects should be retained across all sectors.

OVQ17. Do you agree with our design proposal for the resilience re-opener?

We support the intent of the Resilience Reopener; however, we do not agree with its design, namely the proposed materiality threshold is too high, and the proposed scope is too narrow.

We must ensure the resilience of the energy system. There are many natural, cyber, and human threats which have the potential to risk the resilience of our network that materialise during the price control. Therefore, we take action to reduce the risk of these threats based on strategies for network asset management, climate, IT and telecoms, and data and digital, and we are prepared to act quickly if needed. The Resilience Reopener is a crucial aspect of this process. We require use of the reopener where there are changing government or NESO resilience requirements, in addition to mitigation works such as flooding, and enhancing physical security of CNI sites.

We are generally satisfied with the parameters of the mechanism which have been rolled over from RIIO-T2. However, important aspects of this reopener should be amended.

Scope:

The Resilience Reopener must have a broad enough scope to allow us to respond to changing circumstances quickly and with flexibility, in such an evolving area.

Ofgem's RIIO-T3 SSMD recognises that network companies must deliver a safe and resilient network which is responsive to change. Its SSMC and SSMD acknowledge that the GB energy system is facing an ever-changing and growing set of risks. Point 8.69 of the SSMD Overview recognises that amidst the changing landscape, TOs must make sure that they are resilient against a range of risks they may face now and in the future.

The expectation is for TOs to continually progress against their requirements; therefore, additional investments may arise off the back of these works which will need to go through the reopener. For this reason, the proposed scope decided at SSMD and confirmed in the Draft Determinations, must be broadened, in recognition of the dynamic nature of the resilience requirements across the different facets of our network.

Materiality threshold:

Applying a default materiality threshold to a resilience mechanism is a step change from the current approach in RIIO-T2, where it is recognised by Ofgem that resilience-based costs are externally driven and the networks should be funded to complete the works expediently. Furthermore, the resilience reopener requirements will likely be driven by government changes, such as CNI PSUP upgrades or flood mitigation projects. These costs are unknown at the beginning of the price control and are individually unlikely to meet the materiality threshold.

We believe there should be no materiality threshold for the Resilience Reopener. This reopener applies to works that are essential for the resilience of our network, therefore there should be no barrier in place to prevent us completing them, with agility and efficiency.

More broadly, we believe the default materiality threshold of 0.5% annual ex ante base revenue is too high. We explore this further in our response to OVQ13.

OVQ18. Do you agree with our proposed approach to RPEs?

We do not support Ofgem's RPEs approach, as it overlooks cost volatility in RIIO-2 and only slightly revises the T2 method. At SSMD Ofgem indicated it agreed with consultation responses that RPEs should be used to address market volatility. It committed to engagement with stakeholders to ensure Ofgem's cost assessment framework appropriately captures the increased market volatility and supply chain challenges occurring within the sector. The RPE proposals from Ofgem do not address cost volatility and the resulting indexation is a minor update to the T2 process, which leaves TOs exposed to market driven volatility outwith our control.

Looking ahead to RIIO-T3, the sector is expected to face sustained macroeconomic pressures, including supply chain disruption, labour shortages, policy shifts, and geopolitical instability - all contributing to unpredictable cost fluctuations. In support of the draft determinations, we have applied industry best-practice techniques, including Monte Carlo simulation, to rigorously quantify the potential range of cost volatility and map this risk across key T3 investment categories (see response to ETQ50 for further detail).

At the Cross Sector RPE & OE Working Group on 26 March 2025—where minutes and presentations are still pending—all three energy sectors stressed the need to update the current RPE mechanism. Companies highlighted that Ofgem, and government-imposed deadlines create challenges due to a limited supplier market for specialised assets, forcing competition for scarce resources. We provided detailed and comprehensive evidence of market forces driving cost volatility beyond RPE and CPIH. This evidence has been incorrectly dismissed by Ofgem.

We firmly believe Ofgem's Draft Determination proposal for RPEs is highly unlikely to resolve the significant shortcomings identified in the T2 mechanism. Our analysis indicates that, even when prices are driven by competitive procurement dynamics beyond their control, the current mechanism can leave TOs underfunded by as much as 40%. While we acknowledge the challenge of balancing protection against external cost risks with the need to minimize administrative complexities, we believe that Ofgem's current proposal falls short - especially in the context of Net Zero, Accelerated Strategic Transmission Investment (ASTI), and the Climate Pledge 2030 (CP2030). Tight regulatory and government deadlines have favoured the supplier market, but they do not adequately address the exceptional risks TOs face in delivering these projects.

In the December 2024 Oxera report we submitted, we identified critical vulnerabilities in the T2 mechanism, including:

- Basis Risk: The risk that selected indices do not accurately capture TOs' cost pressures, leading to tracking errors.
- Composition Risk: The risk arising from differences between actual expenditure and the notional cost structure.
- Supplier Margin Fluctuations: The risk that changes in supplier margins are not effectively captured by indices based solely on raw or unprocessed materials.

Ofgem's current proposal does not clearly state which of these risks it seeks to mitigate. Although the updated weightings seem aimed at reducing composition risk, there is no explicit mechanism to adjust for actual expenditure composition, basis risk, or supplier margin changes.

To ensure that the new mechanism is truly fit for purpose, Ofgem should:

1. Explicitly Define the Risks: Clearly outline the specific vulnerabilities inherent in the T2 mechanism.
2. Map Solutions to Risks: Directly link each proposed T3 solution to the corresponding risk (basis risk, composition risk, supplier margin changes).

This approach, consistent with our December 2024 report, would allow Ofgem to rigorously evaluate alternative solutions - such as implementing an additional ex-post True-Up mechanism. We believe that this option offers the best balance between incentivising efficiency and shielding TOs from excessive risk, all while avoiding unnecessary complexity. As currently proposed, however, the T3 framework does not adequately address the risks identified in the T2 mechanism.

Ofgem should implement a flexible RPE mechanism for RIIO-T3 to manage market fluctuations. If the mechanism is weak, mitigation measures may compromise delivery of network capability and resilience, affecting the goal of delivering clean power by 2030 and the need for a robust network.

Cost of service

OVQ19. Do you agree with our proposed approach to ongoing efficiency?

We disagree with Ofgem's approach to setting the Ongoing Efficiency (OE) challenge. Ofgem has essentially maintained the OE as established for the RIIO-ET2 price control settlement. We view this is a fundamental error that represents a misunderstanding of the reality that network companies operate within and the evidence we provided in our submission.

The Draft Determinations Ongoing Efficiency (OE) target of 1% seems to overlook critical factors, resulting in an inaccurate and exceedingly demanding benchmark during one of the most construction-intensive periods in the United Kingdom's history. While the OE challenge aims to account for "learning by doing," the current OE target appears to disregard the operational context in which Transmission Owners (TOs) are and will continue to function throughout the RIIO-3 period. Ofgem has contended that regulated sectors are less impacted by broader productivity slowdowns; however, this assertion contradicts recent data (see Oxera report). Consequently, an OE target should not be based on data that includes the 'Tech boom,' a period characterized by unusually high productivity growth.

Moreover, the methodology for establishing OE targets neglects the direct impact of Net Zero initiatives, Accelerated Strategic Transmission Investment (ASTI), and CP2030. This oversight is critical; without acknowledging the balance between expedited project delivery and actual achievable efficiency, the OE benchmarks threaten to divert focus and resources away from essential climate actions. Targets fixed by Ofgem and the Government for these transformative projects lack recognition of the practical limitations in reaching efficiency goals on large-scale undertakings within tight timelines, directly impeding CP2030 progress.

Additionally, several process factors have contributed to unsuitable results in the formulation of OE:

(i) A higher weighting should be assigned to the *'Construction'* sector due to its significant operational similarity to TOs.
(ii) The inclusion of the aggregated *'Information and Communication'* sector as a comparator is distorting the analysis. This aspect should be reviewed and potentially removed entirely.
(iii) Overreliance on NGET's 0.7% target is problematic. During the RIIO-2 CMA appeals, the CMA determined that Ofgem had placed excessive weight on the historical performance of a single company over a relatively short period, with no assurance of replication. This same concern applies to Ofgem's reliance on the upper end of NGET's OE range. A thorough review and appropriate consideration are necessary to establish a fair, achievable, and realistic efficiency level.

Taking into account the points and processing factors outlined above, we strongly advocate for setting the OE target at a lower level, aligned with our Business Plan Submission of 0.1%, to enable TOs to successfully meet their CP2030 objectives.

Innovation

OVQ20. Do you agree with our proposed NIA funding levels?

We welcome Ofgem's continued recognition of the NIA as a principal mechanism for supporting innovation in RIIO-3, and we are encouraged by the uplift in proposed NIA funding across all participating regulated networks compared to RIIO-2 in nominal terms.

However, we do not agree that the proposed funding levels are sufficient to meet the scale of the challenge ahead, either in the round or for our business specifically. Across the participating networks, the proposed NIA allocations are on average 14% lower than requested. In our case, the cut from £25.5m to £20m represents a material shortfall of £5.5m. This is not a marginal adjustment: it is the difference between having the resource to deliver the balanced, strategic, and collaborative innovation portfolio set out in our RIIO-T3 plan, and being forced to constrain activity at precisely the time when innovation is most needed. We expand further on our specific position in response to SHETQ12.

At a sector level, the broader picture is equally concerning. When accounting for inflation, the proposed RIIO-3 total of £215.1m represents a real-term reduction compared with the £209.4m awarded in RIIO-2, equivalent to a decrease of approximately £173.3m in today's prices. This is occurring against the backdrop of the fastest and largest transmission expansion in decades, and the most urgent period of decarbonisation the UK has ever faced. Reducing the real value of innovation funding at this time risks slowing progress, limiting collaboration and ultimately increasing long-term cost for consumers.

Given the role of innovation in delivering safer, smarter, greener and faster network solutions, we strongly recommend that the final NIA allocation is increased towards the levels originally proposed by the networks. For us specifically, reinstating the full £25.5m is critical to ensuring we can deliver the scale of innovation needed to support the energy system transition and unlock lasting benefits for consumers. As illustrated in Table 3 below.

Table 3 - OVQ20 NIA Funding Allocations

	Company	NIA funding requested / £m	Proposed RIIO-3 NIA / £m	Company %	Network %
GAS	Cadent	£21.5	£18.0	84%	39%
	NGN	£15.5	£9.7	63%	
	SGN	£30.7	£6.2	20%	
	WWU	£37.9	£11.8	31%	
	NGT	£40.0	£11.2	28%	
ELECTRICITY	NGET	£135.0	£117.5	87%	86%
	SHET	£25.5	£20.0	78%	
	SPT	£22.5	£20.7	92%	
	TOTAL	**£328.6**	**£215.1**		**65%**

OVQ21. Do you agree with our approach to the future of gas-related workstreams?

No, we do not agree with the proposed approach. Given the UK Government's vision of becoming a Clean Energy Superpower, it is inevitable that the role of natural gas in the energy system will decline over time. While electricity is expected to become the dominant energy vector, there will still be occasions when gas is needed to supplement energy demand. This shift highlights the need for innovation to support a gas network that is both scaling down and being used intermittently - conditions for which it was not originally designed.

We acknowledge the availability of several gas-related funding streams, including the Strategic Innovation Fund (SIF) and the Department for Energy Security and Net Zero's Hydrogen Transport Business Model (HTBM).

To complement these, we propose that NIA funding be made available on a case-by-case basis for 'future of gas' innovation projects. This should be supported by a timely and proportionate approval process to ensure accessibility without undue administrative burden.

OVQ22. Do you agree that £2.5m of additional NIA should be used to provide enhanced advisory services for innovators at the early stages of innovation development?

We support, in principle, Ofgem's proposal to allocate £2.5m of additional NIA funding to provide enhanced advisory support services for innovators. However, the organisation delivering this service must be selected through a fair, open, and transparent process, with all networks contributing to defining the scope and assessing potential providers. We believe this process could be most effectively coordinated through our industry trade bodies, such as the ENA. This will help ensure that the funding delivers maximum value and that the selection process is robust, impartial, and based solely on the provider's ability to meet the agreed requirements.

To be effective from the outset, the chosen organisation must:

- Have the capacity and capability from day one to deliver the service without creating a bottleneck for innovators. If significant upskilling or investment is required simply to reach the required level of competence, the £2.5m risks being consumed in building internal capability rather than delivering value to innovators.
- Possess deep, demonstrable expertise in the needs of the energy system, across electricity, gas, and whole-system contexts, and be able to maintain this knowledge over time. This is critical to quickly assess the potential of new innovators and provide relevant, high-quality guidance.

Once appointed, the provider should be held accountable through a clear set of KPIs and deliverables agreed in advance, covering both the quality and timeliness of support. Performance should be monitored and reviewed regularly, with an annual public report detailing activities, outcomes, and progress against the agreed plan.

With these safeguards in place, the £2.5m investment could play a vital role in strengthening the innovation pipeline and increasing the diversity of ideas reaching the networks. Without them, there is a real risk of under-delivery, bottlenecks, and reduced value for consumers.

OVQ23. Do you agree with our approach to improving oversight and reporting of the NIA?

We are open to increased Ofgem oversight, particularly for more material or higher-risk projects, provided this is proportionate and does not stifle innovation through excessive administration. The focus should be on improving the clarity and transparency of how innovation funding delivers value for consumers, while maintaining pace of delivery.

We note Ofgem's reference to "clear demonstration of value" during the recent RIIO-3 Working Group, and believe it is essential that this term is clearly defined and consistently applied. Networks must understand how value will be assessed whether financial, strategic, environmental, or consumer benefit, and what evidence is expected. Without this clarity, reporting could become inconsistent and overly subjective.

We already have strong processes in place to ensure projects meet NIA eligibility criteria, including peer review and challenge between networks. These are effective in preventing weak or "half-baked" proposals from progressing. We are receptive to enhancing reporting to further evidence value, but this must be designed to reinforce good behaviours, not slow innovation.

We suggest that duplication in existing reporting should be minimised and note that the ENA Smarter Networks Portal (SNP) is currently being refreshed with a new, improved project dashboard due to go live in September 2025. Many of the data points Ofgem require are already tracked by networks, so requirements should be aligned with existing processes wherever possible.

Ofgem's mention of potential audits was not in the Draft Determination, and we would welcome further discussion before forming a position on this. If additional reporting or oversight requirements are introduced, it will be important to ensure networks can resource them effectively without diverting effort from project delivery.

OVQ24. Do you agree with our proposals to allocate £500m for SIF funding?

Yes, we agree with Ofgem's proposal to allocate £500m for SIF funding in RIIO-3. This represents a strong and necessary commitment to innovation that addresses both transmission-specific and wider energy system challenges and reflects the scale of the task in delivering a net zero energy system.

We welcome Ofgem's continued recognition of the SIF as a critical mechanism for enabling collaboration, technological development, and strategic solutions that will be vital in meeting the scale of investment and pace of change ahead.

While we believe £500m is a substantial and appropriate starting point, the scale and complexity of the RIIO-3 challenge will require flexibility to adjust funding levels if new or unforeseen innovation needs arise during the period.

OVQ25. Do you agree with our proposals to introduce a 'Programmatic Approach' to the SIF?

We support Ofgem's proposal to introduce a Programmatic Approach to the SIF, as it offers the opportunity to focus collective effort on the most significant challenges facing the energy system. By

setting longer-term Strategic Innovation Challenges at the start of RIIO-3, there is a greater chance of ensuring innovation activity addresses real system needs rather than perceived priorities.

We see clear benefits in this approach:

- **Strategic focus**: Longer-term challenges can direct resources towards issues that will materially accelerate decarbonisation, improve system resilience, and ultimately unlock consumer value, while reducing the risk of pursuing lower-impact or fragmented projects.
- **Continuity and collaboration**: multi-year programmes, with delivery groups bringing together Transmission Owners, Distribution Networks, NESO, and other stakeholders, building momentum and increasing the likelihood of deployment.
- **Evidence-led challenge setting**: The proposed early-stage call for evidence and landscape analysis will help ensure that the Innovation Challenges are grounded in actual system requirements and that relevant stakeholders are identified from the outset.

For the Programmatic Approach to succeed, we believe several design considerations are essential:

- **Agility**: While challenges should be stable enough to give certainty, they must also be capable of being refined in-period if new evidence or system developments arise.
- **Manageable scope**: The number of Innovation Challenges should be limited to ensure each receives the focus and resources required to deliver tangible outcomes within the period.
- **Measurement and longevity**: Progress measures should be clear from the outset, and where necessary, some challenges should be allowed to span price controls if the system issue is significant and long-term.
- **Complementarity**: The Programmatic SIF must work alongside, not replace, other innovation mechanisms such as the NIA, which remains critical for generating the early-stage pipeline of ideas.

With these safeguards in place, we believe the Programmatic Approach can provide a disciplined, collaborative framework that directs effort towards the innovations most capable of delivering lasting consumer and system value at pace.

OVQ26. Do you agree with our proposal to introduce a £50m deployment fund, utilising £50m from the total £500m SIF allocation?

We strongly support the introduction of a dedicated deployment fund, as this addresses one of the most critical gaps in the current innovation framework. However, while we welcome the principle, we have some concerns and recommendations on the proposed design and scope:

Funding Source

- It is preferable for the £50m to be additional to the £500m SIF envelope, rather than carved out from it, to avoid reducing the budget available for projects.
- RIIO-3 will need strong funding for both creating new innovations and rolling them out in real projects, so it is important the budget for either stage is not stretched too thin.

Deployment Scope

- We support the fund being managed within the existing SIF framework, with applications accessed via a similar Discovery, Alpha, Beta style process to ensure consistency and efficiency.
- Importantly, the deployment fund must not be restricted to projects maturing solely from NIA or SIF.

- Deployment funding should also cover proven innovations from outside the NIA or SIF pipeline, for example, solutions already used successfully in other industries, adopted by other networks, or developed through TO-funded pilots where they offer a more viable or cost-effective alternative to current technologies and can deliver clear consumer benefits without waiting for the next price control.

Adequacy of Funding

- While the £50m fund is a strong starting point, we are concerned it may be insufficient given the scale of transmission-specific deployment projects (see example below).
- We welcome the proposed review after two years but recommend Ofgem commit upfront to keeping the adequacy of the funding envelope under close review to ensure it does not become a bottleneck for innovation rollout.

Example project
Dynamic Line Rating (DLR) is a proven technology that increases the real-time capacity of overhead lines, reducing renewable curtailment and supporting Clean Power 2030 targets. Our current pipeline of identified DLR projects, covering existing priority circuits, totals around £20m based on project costs of ~£1.5m per scheme plus ongoing service charges, derived from our pilot project. While we are seeking provisions to fund these further pipeline projects through other mechanisms, retrospectively, access to a dedicated deployment fund for both the pilot and pipeline projects would have avoided the lengthy, piecemeal funding routes that have ultimately delayed deployment of this technology, thereby eroding the value it could deliver. This example illustrates how a single transmission-specific rollout could consume a substantial share of the proposed £50m fund, reinforcing the need for flexibility and ongoing review of the envelope's adequacy.

Governance and Assessment Criteria

- For the fund to be effective, the assessment criteria must be clear, transparent, and consistent.
- We urge Ofgem to publish detailed guidance early, including eligibility rules, consumer value measures, and decision-making processes.
- To reduce subjectivity, assessments should be supported by robust, standardised criteria and, where appropriate, independent expert review to ensure that comparable opportunities are judged fairly and consistently.

OVQ27. Do you agree that the deployment fund should also be open to innovation projects that have not been funded through NIA, NIC or SIF?

Yes, we strongly agree that the deployment fund should be open to innovation projects beyond those funded through NIA, NIC, or SIF, provided they can demonstrate clear consumer value, system benefits, and readiness for deployment. This will maximise the effectiveness of the fund and ensure it plays a pivotal role in delivering innovation at the scale and pace required for RIIO-T3. Restricting eligibility to only these mechanisms risks overlooking high-value, mature innovations capable of delivering significant consumer and system benefits - innovations that might otherwise be delayed until the next price control window.

Many proven innovations can originate from other sources, including:

- Supply chain developments and manufacturer led pilots.
- International best practice and cross sector transfer of technology.
- TO funded trials outside the scope of NIA/SIF.

- Collaborative initiatives with academia, industry, or local communities.

Excluding these innovations could unnecessarily delay the rollout of solutions that are ready to deliver measurable benefits for consumers and the energy system. Allowing access to the fund for projects from diverse routes ensures the deployment fund supports the best ideas, regardless of origin, and avoids creating a closed pipeline limited to NIA/SIF. Given the scale and urgency of the transition, the deployment fund must be as inclusive and flexible as possible to capture all opportunities that can accelerate delivery.

OVQ28. Do you agree with our proposal to reverse the SSMD position of removing the Discovery phase from SIF?

We support Ofgem's proposal to retain the Discovery Phase within the SIF and welcome the constructive response from Ofgem and UKRI to stakeholder feedback on this issue. The Discovery Phase plays a vital role in building a strong pipeline of innovation, provided it remains light touch, proportionate, and focused on early exploration. This approach will ensure accessibility, encourage broad participation, and support the development of high-quality projects that deliver consumer and system value.

Our experience has been that the original Discovery phase, as first designed, required a disproportionate amount of resource and effort for relatively low funding value. We are pleased that Ofgem has acknowledged this challenge however it is essential that the Discovery phase is truly focused on scoping, exploring, and shaping ideas, rather than becoming an overly burdensome process. A streamlined and simple Discovery stage will allow us to test the viability of a wide range of opportunities before committing to more resource intensive Alpha and Beta stages.

By keeping the Discovery phase manageable, more project submissions are likely, widening the pool of potential innovations and enabling a more diverse range of ideas to be considered.

OVQ29. Do you agree with our proposals to retain the core aspects of the SIF for RIIO-3?

We support Ofgem's proposal to retain the core aspects of the SIF for RIIO-3. The SIF is a critical mechanism for driving system-wide innovation, it is essential that it continues to evolve in a way that remains proportionate, inclusive, and well aligned with other innovation mechanisms. This will ensure it delivers maximum consumer and system value throughout the next price control period.

The SIF structure through Discovery, Alpha, and Beta phases provides a clear, staged approach to innovation that balances risk management with ambition. Its emphasis on collaboration across Transmission Owners, Distribution Networks, NESO, and wider stakeholders ensures innovation is aligned with the needs of the whole energy system. The SIF has enabled largescale, strategic projects that would not otherwise proceed under BAU or NIA, ensuring high impact ideas are progressed.

While governance and oversight are important, application and reporting processes must remain efficient and proportionate to avoid discouraging participation. Funding must remain accessible to a diverse range of partners, including smaller innovators, supply chain participants, and academic institutions. The SIF must continue to complement the NIA and any deployment funding, ensuring that the full innovation pipeline from early exploration to largescale rollout is supported. Clear guidance on eligibility, assessment criteria, and decision-making timelines will be essential to give innovators confidence and maximise the effectiveness of the SIF.

OVQ30. Do you agree with our proposals for a more flexible approach to contribution rates to fund SIF projects?

We recognise that greater flexibility could enhance the inclusivity of the SIF programme, better align funding contributions with project risk, and encourage participation from a wider range of partners, including Small to Medium Enterprises (SMEs) and academic institutions. At the same time, it is important that any flexible approach is implemented with clear guidance, fairness, and proportionality. Contributions must continue to demonstrate meaningful partner commitment, while ensuring that the SIF remains accessible, inclusive, and focused on delivering maximum consumer and system value.

Benefits of a Flexible Approach

- Many smaller innovators and academic partners struggle to meet rigid contribution requirements. Flexibility would reduce this barrier and broaden the pool of participants, enriching the innovation ecosystem.
- Tailoring contribution rates to reflect the maturity and risk of projects would improve feasibility and encourage ambition.
- By ensuring that high potential projects are not excluded on the basis of contribution capacity, the overall consumer and system benefits delivered by SIF are likely to increase.

Clear guidance will be needed on how contribution rates will be set. Without this, the flexibility could create uncertainty for networks and partners. The approach should ensure a level playing field, avoiding situations where contribution requirements vary in ways that create perceptions of advantage or disadvantage among different networks or project partners.

While flexibility is important, contribution requirements should still reflect a meaningful commitment from networks and partners to ensure co-ownership of outcomes and efficient use of consumer funding.

Adjusting contribution rates must not introduce excessive administrative complexity. Decision making processes should remain proportionate and timely to avoid delaying innovation.

OVQ31. Do you agree with updating the SIF eligibility criteria and assessment process?

We support Ofgem's proposal to update the SIF eligibility criteria and assessment process, recognising that a clearer, outcome-focused framework will help ensure that SIF resources are targeted toward the highest value projects for consumers and the energy system. To be effective, these updates should be implemented with a focus on clarity, proportionality, transparency, and flexibility. This will help ensure the SIF remains accessible to a wide range of innovators and continues to deliver maximum consumer and system value in RIIO-T3.

Updated criteria can provide applicants with clearer expectations on how projects will be assessed, reducing uncertainty and enabling better targeted submissions. Ensuring eligibility is explicitly linked to demonstrable consumer and system value will strengthen the case for innovation funding and public confidence in its use. By refining assessment processes, Ofgem can better ensure that funded projects directly support delivery of strategic national priorities, including decarbonisation, security of supply, and affordability.

While strengthening criteria is important, the application and assessment process must remain proportionate. Overly complex or resource intensive processes risk deterring participation, particularly from SMEs, academics, and supply chain partners. Ofgem should ensure the assessment process is

transparent and applied consistently across all applicants, reducing the risk of subjective interpretation by different assessors.

Clear, published guidance on updated criteria and scoring frameworks should be provided well ahead of application windows, so applicants can prepare strong, targeted proposals. The criteria should allow for a balance between large-scale, strategic projects and smaller, more agile innovations, ensuring the fund captures the full spectrum of ideas that can benefit consumers.

Applicants should continue to receive meaningful feedback from the assessment process to strengthen future proposals and build sector capability.

OVQ32. Do you agree with our proposal to establish a direct pathway for transformative projects to seek Ofgem's support for funding?

We support Ofgem's proposal to establish a direct pathway for transformative projects. We recognise that some projects, by their scale, urgency, or strategic importance, may not fit easily within the traditional staged SIF process of Discovery, Alpha, and Beta. A direct pathway could therefore play an important role in ensuring that high impact innovations are not delayed by procedural constraints and can deliver timely consumer and system benefits. To be effective, this pathway should be implemented with clear criteria, transparency, and proportionate governance, and positioned as a complementary tool within the wider SIF and innovation funding framework. This approach has the potential to accelerate delivery of transformative ideas at the pace required to meet net zero and deliver material consumer value.

Benefits of stablishing a direct pathway

- Provides a mechanism to support major projects critical to achieving the UK's decarbonisation and energy security goals.
- Enables innovation that can cut across multiple networks or requires immediate action to be developed without waiting for standard SIF cycles.
- Offers an adaptable route for projects that may emerge outside normal challenge calls but demonstrate potential consumer value.

It is essential that Ofgem clearly defines what qualifies as a "transformative project" to ensure consistency and avoid subjective decision making. The process for identifying and approving these projects should be open, with clear guidance on assessment, to maintain confidence among all participants. While robust scrutiny is required, the application and approval process should remain proportionate to avoid undue delays. Ofgem should ensure that the introduction of this pathway does not erode the funding available for the broader SIF programme, given the scale of innovation required in RIIOT3.

OVQ33. Do you agree on the need to clarify roles and responsibilities within the innovation ecosystem, and the factors that we should consider?

We agree on the need to clarify roles and responsibilities within the innovation ecosystem. A more transparent and clearly defined framework will help ensure that innovation funding is used efficiently, duplication is minimised, and consumer value is maximised. To achieve this, the approach should be fair, transparent, and proportionate, ensuring that all stakeholders, from large Transmission Owners to small innovators, have equitable opportunities to participate. This will help maintain an efficient and inclusive innovation environment while maximising consumer benefit.

The current ecosystem involves a wide range of participants, including TOs, NESO, DNOs, UKRI, academic institutions, and supply chain partners, often with overlapping roles. Without clear role

definition, there is a risk of inefficiency, unnecessary administrative burden, and missed opportunities to capture consumer value. Greater clarity would improve accountability, streamline governance, and provide innovators with confidence in how responsibilities are shared.

Roles and responsibilities should be allocated in a way that ensures fair and equal access to innovation opportunities for all stakeholders, rather than being concentrated within a single organisation or body.

Ofgem should publish clear guidance on responsibilities, governance, and decision-making processes to provide confidence that innovation funding is being allocated in a fair and proportionate way. Any allocation of roles should ensure that responsibilities are not duplicated across multiple organisations, reducing inefficiency and unnecessary costs to consumers.

Networks must retain clear and direct routes to propose, develop, and deliver innovation projects, rather than being dependent on external intermediaries. Oversight of roles should be proportionate and not create excessive layers of administration, which risk slowing down innovation delivery and discouraging participation.

The clarified framework should complement, not compete with existing mechanisms such as the SIF and NIA, ensuring a coherent and efficient innovation ecosystem.

OVQ34. Do you agree with our approach to improving reporting of deployed SIF projects and lessons learned post-funding?

We agree in principle with Ofgem's approach to improving reporting of deployed SIF projects and the dissemination of lessons learned. We believe effective reporting is essential as it can demonstrate the value of innovation to consumers, build stakeholder confidence, and ensure that the benefits of successful projects are maximised across the energy system. To be successful, reporting and dissemination requirements should be proportionate, clearly defined, and make effective use of existing sector platforms. This will help maintain an efficient and inclusive innovation environment under RIIO-T3, while maximising the value of consumer-funded innovation.

Benefits of stronger reporting

- Clear and consistent reporting provides assurance that consumer funded innovation delivers measurable outcomes.
- Sharing lessons learned, including from projects that do not progress as planned, is critical to avoiding duplication and strengthening future innovation efforts.
- Improved reporting ensures networks are accountable for the delivery and deployment of innovation outcomes, not just for project initiation.

Reporting requirements should remain proportionate to the size and complexity of the project. Excessive administrative burdens risk diverting resources away from delivery and discouraging participation. In addition, reporting should capture both successes and challenges, recognising that not all innovations will succeed but that valuable insights can still be derived for the wider sector.

Ofgem should set out clear expectations for the format, scope, and frequency of post-deployment reports to ensure consistency across projects and networks.

We welcome the planned refresh of the ENA Smarter Networks Portal in September 2025 and agree it has the potential to be a central platform for hosting and disseminating project outcomes while reducing duplication across reporting channels. However, we recognise that this refresh is only the first step, and further development will be needed to ensure it meets the full needs of stakeholders, supports better data accessibility, and enables more meaningful analysis. We believe building on existing reporting processes

and platforms is preferable to starting from scratch, to ensure continuity and avoid unnecessary disruption.

We also welcome the recent Citizens Advice report[1], which highlights important recommendations for strengthening network reporting. We will review these recommendations and, where appropriate, enhance our internal processes to ensure we deliver maximum value and transparency.

Cyber Resilience

OVQ35. Do you agree with our proposals for the Cyber Resilience re-opener?

Yes, we agree with the proposals for the Cyber Resilience re-opener.

Data and Digitalisation

OVQ36. Do you agree with our position of not changing the Digitalisation licence condition?

Yes, we agree with Ofgem's position of not changing the Digitalisation licence condition for RIIO-T3.

OVQ37. Do you agree with our proposed approach to the DSI licence condition?

We are broadly supportive of the rationale for the principle and overall objective for the Data Sharing Infrastructure (DSI) initiative, as demonstrated by our commitment to the pilot and MVP stages. We do not consider it necessary for the proposed requirements to be formalised as a licence obligation at this stage, to enforce engagement and compliance with the DSI initiative, though we would welcome further discussion on this topic through this year, as appropriate planned milestones are passed and as information is made available.

At this current juncture, we however note that we have multiple concerns driven by the degree of ambiguity in the requirements set out in the Draft Determination, and insufficient maturity in the understanding of what it will take to comply with the obligations and the yet to be confirmed backlog of use cases, all of which have costs associated with them. The proposal therefore introduces significant compliance risk without sufficient clarity or a resolution of the current challenges.

Element 1 – Deploying a Data Preparation Node compatible with DSI, by a clear delivery date

While we acknowledge the intent for the deployment of a Data Preparation Node as part of the DSI initiative, we would like to highlight the following considerations regarding its practical implementation:

Consideration 1: There is currently limited detail regarding the specific requirements necessary to comply with the proposed licence condition. In the absence of further clarity, it is challenging to assess the potential impact, the scale of change required, and the overall feasibility of meeting these obligations.

[1] Making Innovation Count - A Transparency Review of NIA and SIF Projects - Citizens Advice

While we consider our submitted capex investment plan includes sufficient provisions to support deployment, there remains uncertainty as to whether the existing BSC IT allowances are adequate to cover the associated operating costs given the unknown increase in cloud consumption charges linked to the Data Preparation Node infrastructure requirements.

Consideration 2: Given the current level of maturity in the proposed approach and the limited definition of the scope and requirements for delivering the Data Preparation Node, it is essential that sufficient time will need to be provided between the full definition of the requirements and the clear delivery date at which point it needs to be in place.

Element 2 – Adhering to the Trust Framework which will be set out by the DSI Delivery Body

We understand the relevance of establishing and adhering to a consistent Trust Framework across the DSI participants as a necessary part of the initiative. However, given the current level of detail, we expect further clarification is needed to fully understand the practical implications of implementation:

Consideration 1: With the limited information available currently as to the breath of scope of the Trust Framework and the implications of how it will operate, without greater clarity it is difficult to assess impact this will have on the organisation.

Consideration 2: Based on the information available, we cannot currently assess the processes, resource and governance changes which will be necessary to enable our organisation to meet this obligation. Further detail will be essential to support effective planning and implementation.

Consideration 3: Depending on how the Trust Framework is chosen to be implemented, for example, will it be more system-orientated (higher up-front cost and lower yearly ongoing costs) or more people and process orientated (lower up-front costs but higher ongoing costs) or a combination of both. We will need to review the additional information when provided by NESO to enable us to define what delivering and operating within the Trust Framework will require.

We have identified two additional concerns regarding the proposed approach to the DSI Licence Condition, which are outlined below:

The success of the DSI initiative will not be judged based on the deployment of a Data Preparation Node or the adopted of a Trust Framework, but instead by the identification, prioritisation, implementation and exploitation of the data sharing use cases that will enable the value to be delivered from increased sharing of information and collaboration across industry participants. The proposed approach does not take consideration of this currently, and we would encourage Ofgem to take this into consideration.

Cost recovery remains a concern for our organisation, not only in the enabling obligations like Data Preparation Node deployment and the implementation of a Trust Framework, but also the costs associated with the implementation of use cases. Whilst the specific activities will differ between use cases, generally we would need to consider the following activities for each use case that is needed:

- Data availability and accessibility
- Data triage and data quality
- Data enrichment and quality improvement
- Data engineering into the required format and structure
- Data integration and sharing
- Data security and authorisation

Whilst some use cases could reasonably be delivered within BAU allowances, some will not, and it is reasonable that we can recover costs associated with supporting industry use cases. The proposed materiality threshold for the Digitalisation Reopener is too high to enable recovery through that mechanism as it currently stands. Therefore, we are open to exploring the right way of funding to meet DSI needs, including options like pass-through costs, and would expect this to be resolved either before, or in parallel to, further discussions on DSI licence conditions. OVQ38. Do you agree with our proposed design of the Digitalisation re-opener?

As proposed, the Digitalisation Re-opener is not fit for purpose and will not enable SSEN Transmission to request additional allowances for the majority of the projects we are likely to identify as new demand through the RIIO-T3 period.

If we are unable to request additional allowances, then this will compromise our ability to deliver incremental consumer value and execute non-foreseeable alterations to our current digitalisation strategy.

The challenges that we have the proposed digitalisation re-opener are as follows:

Issue 1: The materiality threshold is too high, making the re-opener application inaccessible for critical lower materiality schemes.

A materiality threshold of £22.2m (in pre-TIM terms) is too high and will mean that good new projects, with clear & justifiable needs cases, that will drive efficiency or digitalisation inside and outside of our business will not be taken forward as they will not be funded under this mechanism. We therefore propose that one mid-period reopener will be used for this mechanism with an aggregate of the default £10m.

We strongly disagree with the materiality threshold of £22m (£5.6m when multiplied by the TIM) before a project can be considered via this reopener mechanism. The threshold of 0.5% of annual ex ante base revenue is too high to be able to progress projects through this mechanism.

This will have a significantly damaging impact on the reopeners under the uncertainty mechanism framework, including this one. Using a 0.5% of Base Revenue divided by the TIM is not appropriate because it correlates an increasing level of activity with a higher materiality threshold for projects, which is not necessarily true. This approach will fundamentally impact the risk profile associated with, not only this mechanism, but the entire UM framework, and it does not account for the aggregate risk associated with delivering multiple projects that do not meet the high threshold.

The average total project in the applicable scope of the Non-IT&T Capex submission is c. £5.3m, with the largest investment being c. £16m. These are substantially below the proposed £22.2m threshold. In RIIO-T2, the sum total of our Non-Op IT&T re-opener application was £24m which represented eight proposed investments – some of which have been included in RIIO-T3 submission. Based on the proposed materiality threshold, none of these projects could have been submitted through this re-opener.

As a solution, we are seeking one mid-period reopener, which will be set at 0.1% of ex ante base revenue, which in monetary value is £10m. In line with Ofgem's shift to using RoRE to value the BPI and ODIs, we believe this is an appropriate amount to set as a default threshold for our Uncertainty Mechanisms.

We seek a more accessible materiality threshold, which is more closely aligned to the ex-ante baseline allowance for Non-Op IT&T Capex. We would also suggest that Ofgem consider that there are different drivers for re-openers and distinguish between discretionary/digitalisation investments and non-discretionary/mandatory investments.

Therefore, we propose this reopener can be used where the aggregate the materiality of schemes meets the £10m threshold. Please see our response to OVQ13 for more information on our position on materiality threshold across the suite of RIIO-3 UMs.

Issue 2: The scope of the Digitalisation Reopener is unclear.

The scope of the re-opener is not set out clearly, the title is Digitalisation but there is no cost category with this name. The majority of costs fall into the Non-Op IT&T Capex cost category; however, costs could be related to Business Support Costs (IT) or Operational Technology. Therefore, it is our understanding that a re-opener can be submitted that spans all these cost categories to ensure that the full scope of Digitalisation, but also non-discretionary investments that arise can be appropriately funded.

Issue 3: A single re-opener window, based on RIIO-T2 processes, does not promote the agility and responsiveness that is needed given internal and external drivers and the pace and scale of industry change.

New demands, discretionary and non-discretionary, will arise throughout the regulatory period, being able to respond to these with a level of confidence is vital to ensure we are equipped to make the required investments in the RIIO-3 period. Some of these investments will be discretionary, some will be non-discretionary and driven by external or industry factors e.g. Connections Reform, SSEP or Data Sharing Infrastructure obligations and use cases.

There needs to be a balance struck between:

- Operator agility and ability to meet the needs of the wider industry.
- Operator confidence in receiving or recouping investment.
- Operator and Ofgem overheads on producing and reviewing re-opener applications; and
- Good value to the consumer.

Recognising that the re-opener applications are a burden on both sides, and the need for increased certainty, we would propose the following is established:

a. Upfront approval from Ofgem that we will be able to recover expenditure outside of baseline allowances for investments that are linked to non-discretionary cost drivers such as Data Sharing Infrastructure and where we are not in control of the demand. Costs would be recovered through the re-opener application window or RIIO-T3 close out process.

b. Informal engagement through bilaterals with Ofgem to agree the needs cases and spend envelope for additional discretionary investments outside of baseline allowances. Costs would be recovered through the re-opener application window or RIIO-T3 close out process.

c. A single mid-period re-opener application window for Digitalisation and IT&T expenditure and cost recovery.

d. More certainty that Ofgem will process re-opener applications and provide a determination within a 3–6-month window following application.

We would welcome the opportunity to discuss the structure and process of the Digitalisation re-opener, including the points above in order to establish a mutually agreeable position.

2. ET Annex Questions

Outputs and incentives

Infrastructure fit for a low-cost transition to net zero

ETQ1. Do you have any views on our proposed approach to which projects will be in scope of the CSNP-F ODI-F, especially projects submitted through the Load Re-opener?

We are supportive of the transition to whole-system, centralised planning for energy infrastructure in Great Britain and recognise the strategic benefits this approach can bring. However, while we welcome this shift, it is essential that the implementation is both effective and efficient. A key priority must be to ensure that the emerging planning framework, alongside associated regulatory mechanisms and incentives, facilitates a fair and balanced allocation of risk between Transmission Owners and consumers.

The Draft Determinations for RIIO-T3 currently lack sufficient detail on how the Centralised Strategic Network Plan (CSNP) Outputs will inform both the CSNP-F Re-opener and the application of the associated Output Delivery Incentive (CSNP-F ODI-F). These elements are fundamental to understanding the wider framework governing the setting of Output Delivery Incentive (ODI) parameters and specifically, the determination of Recommended Delivery Dates (RDDs) by NESO. In our Business Plan submission, we noted that the CSNP methodology is still under development by the NESO and therefore the CSNP-F framework needs to be able to adapt to changes in the scope or use of the CSNP.

In our response to the NESO's CSNP Methodology consultation (T3BP-DD-031), we noted our concern that the methodology as consulted on does not provide the level of detail required. We also stated the RDD methodology is not yet defined, creating a gap between regulatory expectations and CSNP readiness. In the absence of an established CSNP Methodology, we lack a clear view of the approach outlined in Draft Determinations. Therefore, until further clarity is provided, we are not able to adopt a definitive stance on these proposals.

CSNP-F Outputs

We do not support the blanket application of an ODI-F to all CSNP schemes. In absence of the detail to underpin the manner and circumstances under which the modification may be made our view is that Ofgem should assess each NESO-identified project on a case-by-case basis to determine whether an ODI-F is appropriate, as it may not be suitable for smaller, less strategic CSNP projects.

Load Re-opener

We do not agree that Load Re-opener projects should be in scope of the CSNP-F ODI-F as it risks introducing double counting of rewards and penalties against the Connection Delivery Incentive. We expect the majority of Load Re-opener projects will be regional investments to facilitate connections, rather than large strategic projects. Applying CSNP ODI-Fs to connection projects on a case-by-case basis will introduce uncertainty to the Load Re-opener. Given there is no clear methodology for establishing Load Re-opener ODDs and TDDs, this would fail Ofgem's own practicality criteria.

Material Uncertainties

There is a lack of detail on the governance and process that will be required to manage the interactions between the mechanisms in the licence and the CSNP methodology's proposed materiality triggers. We require detail to set out how change control processes will be managed, detailing how system logic shall flow between CSNP methodology and RIIO-T3 regulatory mechanisms i.e. outcomes of Delay event decisions, cost and output adjusting events and reassessment or cancellation. These decisions could potentially result in changes to the regulatory settlement, underlining the need for clear processes and information flows between NESO, Ofgem and TOs.

ETQ2. Do you agree with our proposed approaches to determining a TDD for CSNP-F Outputs and non-CSNP-F Outputs?

Our ETQ responses on CSNP-F reflect the update provided by Ofgem on 12th August 2025. We welcome the further clarification presented through this working group, particularly the intent to set dates at the Recommended Delivery Date (RDD) rather than at the Optimal Delivery Date (ODD), and that the ODD will be no earlier than the Estimated Delivery Date (EDD) submitted by TOs into the CSNP. This clarification also included an updated NESO methodology for setting the RDD based on TO submissions. However, these positions do not fully address the concerns outlined below, and we are concerned about the uncertainty that they introduce relative to the positions under consultation.

We neither agree or disagree with Ofgem's proposed approach to determine a TDD for CSNP-F and non CSNP-F outputs, as insufficient detail has been provided by Ofgem and NESO. In the absence of clarity on how NESO will define the RDD for CSNP projects, it is not possible to fully evaluate Ofgem's proposed approach to setting an appropriate Target Delivery Date (TDD) as this is inherently linked to NESO's processes in developing the CSNP.

It is imperative that Ofgem work with the NESO to set out a full end-to-end process by which dates are set and managed. This must include expectations regarding what the TO's submit into the CSNP, how the NESO formulate the RDD, how Ofgem interpret the RDD when setting the TDD, the shape and magnitude of the output delivery incentive (ODI) against which that TDD will be set (and therefore balanced at a portfolio level), and the mechanisms by which that TDD might change in future.

The role of TOs in setting the TDD needs to be clearer. For example, based on our understanding of NESO's CSNP Methodology, the 'appraise' stage involves an assessment of the deliverability and community impacts of potential network options across Great Britain. However, the role of TOs in this process remains unclear, particularly in ensuring that all relevant schedule risks are appropriately considered when establishing an ODD, and by extension, the TDD. This lack of clarity raises concerns about the ability to ensure a fair and balanced application of the CSNP-F ODI.

Further work is required to define the methodology for setting of a TDD. If a TO has demonstrated to NESO that a RDD is unachievable or highly unlikely to be achieved, we are unclear as to how Ofgem determinate an appropriate TDD. We would welcome ongoing engagement and joint working between Ofgem, NESO and TOs to establish a single, consistent, and transparent TDD setting methodology that reflects both deliverability and consumer value. TDDs must be based on real schedule analysis, not theoretical dates set by NESO. Experience has shown that relying solely on consumer value leads to prolonged negotiations over achievable dates (and potentially a proliferation of scope change requests and/or Delay Event applications leading to an increasing regulatory burden).

A process is required for adjusting the TDD. Network reinforcements that progress through the CSNP are subject to increasing levels of detailed design as they get closer to delivery - unforeseen but unavoidable delivery risks can emerge as greater detail is developed. TOs must therefore have the ability to propose justified adjustments to the TDD. We would welcome further clarity as to the process by which

a TDD that extends beyond NESO's RDD is deemed acceptable, and the evidential requirements in doing so.

Guidance on cost and benefits related to TDD. In addition to the above, we would welcome further clarification as to the evidential requirements to justify consumer benefits and delivery costs, particularly for non-CSNP-F outputs, in the associated CSNP and LRR guidance documents.

TOs need input into all projects they are assigned. Finally, we are concerned about the risk of TOs being assigned third-party designed CSNP projects with timelines that are unrealistic, potentially resulting in unfair penalties. If NESO transfers projects proposed by external parties without meaningful collaboration on delivery feasibility, there is a significant chance that TOs could be held accountable for schedules they were never able to endorse or deliver.

ETQ3. Do you agree with our proposed inclusion of a minimum availability standard in the CSNP-F ODI-F?

We do not support the blanket application of the proposed minimum availability standard to all CSNP schemes. However, we agree in principle that there is an underpinning consumer interest that critically significant and major electricity transmission infrastructure, under CSNP and ASTI, should be subject to certain standards after it is completed.

We do not agree with Ofgem's proposal for a minimum availability standard for all projects of maintaining at least 93% circuit availability for the period up to 24 months following the date on which the asset is delivered. Any minimum availability standard needs to take account of the specific circumstances and technologies being deployed as well as have regard to the available evidence and the price control framework.

We acknowledge that Ofgem's proposed position was developed relying on the lowest average annual system availability for the TOs as in the 2023-24 National Electricity System Report. This is not an appropriate metric to rely on alone, specifically due to the scale and complexity of CSNP projects in the future. Our view is that further work is required from Ofgem and the NESO to develop workable frameworks to set standards for availability, and we cannot support the setting of a standard on an arbitrary basis without technical, engineering and commercial rationale.

We are also concerned regarding the lack of regard Ofgem's proposal has to incentives within the price control. We strongly disagree with Ofgem's proposal to include a minimum availability standard as part of the CSNP-F ODI-F such that a project can only be considered to have been delivered if the assets remain operational and available for use by the NESO for 24 months following the delivery date and adheres to the minimum availability standard. This will extend regulatory uncertainty and risk across price controls and undermine the incentive regime.

We welcome Ofgem's willingness to engage on this topic and can confirm that we are developing a transmission sector availability standard application for ASTI which we consider is suitable for application across CSNP. We will continue to engage with Ofgem on this topic and our proposal.

ETQ4. Do you agree with our proposed approach to Delay Events in the CSNP-F ODI-F?

No, we strongly disagree. Supply chain related events should not be excluded, as the APM mechanism does not sufficiently mitigate this risk and does not fully address supply chain constraints. We oppose limiting Delay Events to extreme weather events, planning permission and other consents, or other 'force majeure' events, as this would impose a higher threshold for qualifying CSNP Delay Events compared to the ASTI Delay Event mechanism. Force majeure is a contractual principle that is subject to

detailed and extensive negotiation between contracting parties. Ofgem's current proposals lack the necessary clarity and specificity around Delay Events, and the use of undefined or legally ambiguous terminology, such as a 'force majeure, risks creating confusion and inconsistency. Clear and specific definitions of Delay Events are critical, as they directly affect risk allocation, delivery certainty, and financial exposure. We strongly urge Ofgem to consult on a more meaningful and legally coherent proposal before progressing to any decision.

Supply chain risk remains significant - While the APM will go some way to mitigate the risks associated with ordering long lead-time assets, it does not address broader supply chain constraints such as skills shortages, resource availability, or market capacity. In addition, our input to the CSNP is, by design, informed by programme norms and our assessment of delivery risks, rather than actual contractor programmes. The projects remain conceptual until we enter formal contracts with the supply chain and have accepted construction programmes. Until that point, supply chain availability presents a genuine risk to our ability to deliver to schedule.

APM does not sufficiently mitigate delivery risks. As highlighted in our ETQ25 response and our 2024 APM Consultation response, we urged Ofgem to introduce a mechanism with equivalent flexibility to ASTI's ECF framework. Currently, APM is limited to enabling TOs to place deposits to secure manufacturing capacity for certain equipment types. However, supply chain constraints extend beyond manufacturing, affecting areas such as securing the contractors to undertake early design works and for the physical installation of assets. Without APM fully addressing these risks, a gap remains in delivery risk mitigation.

Even with mechanisms in place to help the TOs secure supply chain, capacity constraints and delays remain a real risk which is outside the control of TOs and cannot reasonably be excluded from Delay Event consideration.

Proposed mechanism must align with existing ASTI arrangements - We do not believe Ofgem has provided sufficient justification for deviating from the ASTI Delay Event mechanism. To streamline regulatory processes for RIIO-T3, avoid confusion, and maintain consistent expectations, the CSNP-F Delay Event approach should align with ASTI as a baseline, potentially expanding the list of acceptable events based on ASTI experience.

We disagree with the use of the term 'force majeure,' as Ofgem's proposed test of whether TOs took reasonable mitigation steps does not align with the standard definition of force majeure - events that cannot reasonably be planned for. Ofgem should publish a CSNP-F Delay Event example list to clarify which events are in scope.

ETQ5. Do you agree with our proposed shape and size of the CSNP-F ODI-F incentive?

Yes, we agree in part, based on the information currently available. We support the proposed profile of the ODI-F incentive in principle, the inclusion of a lump sum reward for on-time delivery, and the inclusion of a 12-month neutral period. These proposals help address some of the asymmetry experienced under the ASTI ODI framework, specifically the fact that projects have long risk tails and short opportunity windows.

However, the balance of risk and reward will ultimately depend on when and how the Target Delivery Date (TDD) is set. We are concerned that introducing TDDs without a robust, transparent methodology could undermine the intended symmetry of the ODI-F. If TDDs are based on NESO's Recommended Delivery Dates (RDDs) without sufficient input from TOs, there is a risk that the incentive could become skewed, either over-rewarding or unfairly penalising TOs against dates that are not realistically deliverable. Financeability must be assessed when setting Output Delivery Incentives (ODIs) following the

publication of the CSNP, to ensure that Transmission Owners (TOs) are not exposed to excessive portfolio risk.

Network reinforcements that progress through the CSNP are subject to increasing levels of detailed design as they get closer to delivery however unforeseen but unavoidable delivery risks can emerge as greater detail is developed. If NESO subsequently advances or delays these dates in the CSNP outputs, without reflecting the underlying delivery risks or project maturity the application of ODI-F rewards and penalties may become misaligned with deliverability.

Furthermore, it is important that the methodology can be consistently applied in future, to maintain a consistent risk-reward balance against the shape of ODI, where a project undergoes a scope change. Through active engagements on our EGL3 ASTI project, the lack of clarity in underlying assumptions and methodologies is driving uncertainty in how to recalibrate the ODI target date.

As highlighted in our response to ETQ2, we strongly urge NESO and Ofgem to jointly lead the development of a transparent, collaborative methodology for setting RDDs and TDDs. This methodology must properly account for project maturity, delivery risk, and TO expertise to ensure that the ODI-F remains fair, proportionate, and aligned with consumer value.

ETQ6. Which of the two proposals for the Connections Capacity ODI-F target setting methodology do you think is most appropriate and why?

We do not believe that either of the options proposed by Ofgem are appropriate as currently drafted. However, we do believe that Option 1 can provide the basis for a workable ODI subject to design and calibration changes.

We support the use of using the Gate 2 to the Whole Queue (G2TWQ) process to set the target baseline. It is important to note that given that the G2TWQ process is still ongoing with the potential for delays to the process. Given this uncertainty, the target baseline cannot be set until this new connection regime is fully developed and understood, with time to establish the deliverability programme before the ODI can be enabled. More generally, it is undeniable that delivering connections under Clean Power by 2030 is a huge challenge and a stretch task for the TOs in terms of the level of complex infrastructure projects we need to build on a live system – but we cannot deliver it alone.

We are reliant on all parties (Government Planning, Local Authorities and Supply Chain) acting with urgency and determination in the national mission. The design and calibration of the ODI must reflect our role as the final part of the delivery and consider our reliance on the preceding third-party components, outside of our control, being in place before we can complete. We must deliver more connections more quickly than any previous price control to meet the CP2030 and our goals. Our February CP2030 submission identified 110 customers requiring enabling works: 110 Transmission Connection Assets (TCA), 94 Sole-Use Works and 38 Shared-Use Works that need to be delivered across our complete investment plan.

Our proposed changes to the ODI reflect the overarching concern that both options provide limited consideration for the challenges associated with the complexity in the delivery of connections by 2031 and the number of third parties are involved in the successful delivery of an on-time connection. In order to reflect these challenges, there is the need for the inclusion of a robust exemptions process and we provide further detail of these proposals within ETQ7.

Delivery Complexity

We believe the incentive needs to reflect the very different configuration and composition of each TOs network, particularly with impact of the 132kV network in Scotland, compared to England and Wales. This difference drives material additional enabling works involved in facilitating the individual connections

compared to England and Wales where the DNO (up to 132kV) comes to the TO's point of connection for embedded generation connecting at this voltage.

We recognise the significant network challenges associated with delivering embedded connections. However, in Scotland the scale of TO works at 132kV required will be greater which adds additional complexity and ODI delivery risk, whereas in England and Wales that extra network activity will lie outside the transmission network and be the responsibility of DNOs that will not be part of this incentive mechanism. These additional infrastructure requirements make connecting each MW by 2030 much more challenging and fundamentally increases the risk of not delivering on time.

We have provided an illustrative example below to highlight the significant infrastructure works in connecting three transmission connected onshore wind farms.

Table 4 - ETQ6 Sole and Shared Use Wok Dependencies

Project	Sole Use Works	Share Use Works
Project 1	• Associated Circuit Breaker and switchgear • 6km Underground Cable	• Installation of 480MVA 275/132kV SGT • Construction of a 4.3km double circuit 132kV overhead line from Project 1 to Project 2 • Construction of a double circuit 275kV line from Substation to Switching Station - each circuit will be rated at 1,157MVA
Project 2	• Associated Circuit Breaker and switchgear • 1.5km Overhead Line	
Project 3	• Associated Circuit Breaker and switchgear • 2km Overhead Line	

Delays outside of our Control

There are a number of variables when delivering connection projects that are not always within the control of the TO. These include planning delays, developer readiness and NESO operational, contractual and configuration requests that would result in material delays, each of which are completely out with our control. It would be inappropriate for the TOs to carry the consequential ODI risk through penalisation under the connection incentive mechanism.

We believe that Ofgem's options presume that across the portfolio of connections within the incentive there will be winners and losers, with the asymmetric reward and penalty providing the TO with the protection against delays through a less punitive penalty. We strongly disagree with this view. The smaller portfolio of connections we are delivering (30-40 connections) means that more systemic delays associated with planning would impact a large portion of our projects and move them in penalty within the incentive through no fault of the TO.

Therefore, we believe that there needs to be a deadband and an exemptions process within the ODI to account for these potential delay drivers. Following recent working groups, Ofgem presented a proposal to use a deadband, but it was capped at 30 days and with no other exemptions available. This level of deadband does not appropriately reflect the variability of delivery results that will be present in very large and concurrent infrastructure programmes. Furthermore, a deadband should not be an alternative for exemption where the cause of the delay sits outside of our control. A reasonable deadband period coupled with a comprehensive exemption mechanism is the basis for a balanced and fair incentive mechanism.

We are keen to continue to engage with Ofgem on the design and calibration of the incentive and provide further evidence on the need for an exemptions process.

Quality of Connections Survey

Ofgem did not ask a specific question on the continuation of the Quality of Connections survey but asked that the TOs provide a joint response setting out further justification for it continuing as an ODI-F. We have provided this as an appendix (T3BP-DD-028).

ETQ7. Do you have any further considerations on our chosen direction for a RIIO- ET3 Connections Capacity ODI-F, including detail on how the targets could be built up?

As set out within ETQ6 we believe that evolving the options proposed by Ofgem can provide a workable ODI, only if the calibration of the incentive reflects the different sizes of portfolio of connections and the complexity of the enabling works required to deliver the connection.

The objective of the Connection Capacity ODI should be focussed on the on-time delivery of connections to facilitate Government policy, such as CP2030 by the end of the price control. The scope of the ODI should be transmission connected generation and demand that is aligned to the delivery of CP2030 targets. A summary of our proposal, Table 5 , is below:

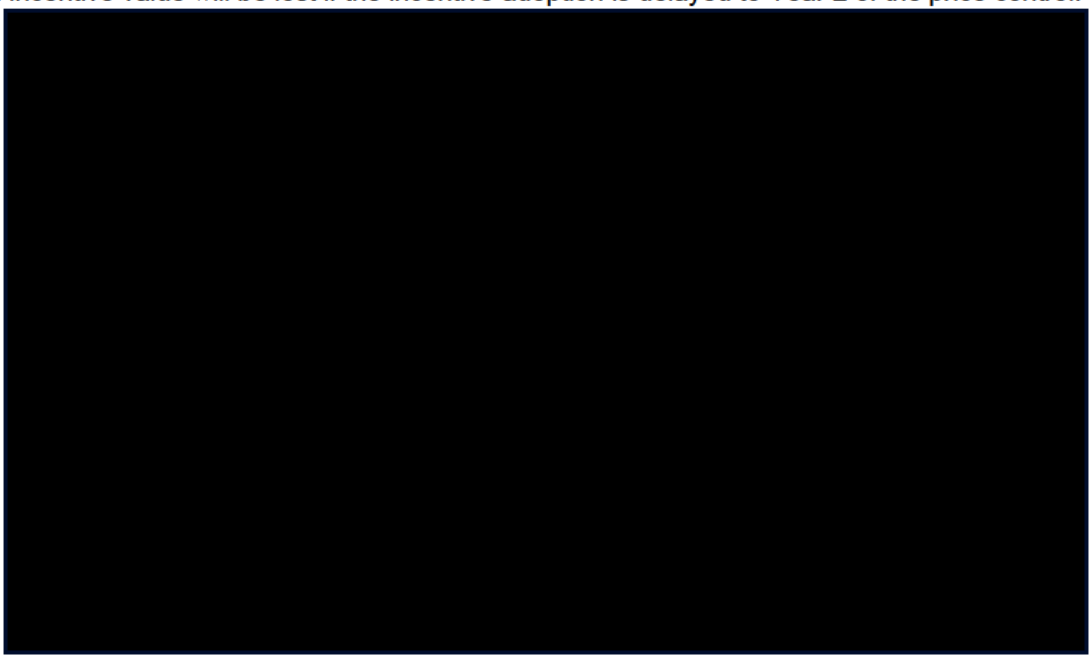
Table 5 - ETQ7 Connections Capacity ODI-F Key Parameters

Parameter	Description
Target Setting	• Use the G2TWQ process to set the best view baseline of connections within scope of the ODI. • Application windows will trigger changes to the baseline e.g. Mod App process • Project MW's will be used as ODI metric • The aggregated MW's of these connections will be used to set the annual ODI target
Incentive Value	• Incentive value is calculated on a Bps/MW once the 5 year aggregated MW target baseline is known to ensure consistent Bps/MW value. • On time delivery should receive full incentive reward to reflect the challenges associated with the delivery of these connection projects. • The annual +0.4% and -0.2% cap/collar needs to be addressed to account for connection delivery profile. Full price control cap and collar should be explored.
Deadbands/ Exemptions	• In order to account for delays that are outside of our control such as NESO requested (Outages, System Access etc), planning/consenting, we believe there needs to be a deadband process is required. • This will limit the regulatory burden of applying for date changes where a delivery deadband can be used. • Exceptional Event process will also be required to deal with material delays that are outside of our control. For example, the requirement for a Public Land Inquiry (PLI) or a change in Government policy.

Setting the Target Baseline

We agree with Ofgem's proposal that the initial baseline should be set as part of the NESO's Gate Two to The Whole Queue (G2TWQ) process. However, until this new connection regime is fully developed and understood, it is difficult to commit to a substantive ODI and networks should be allowed time to establish the deliverability programme before the ODI is enabled. We reserve the right to amend our position on setting the baseline and the overall connections incentive should the G2TWQ process be delayed or materially change impacting the expected delivery dates under the incentive.

Setting the baseline target before this process will result in potentially material changes to the baseline and profile as the G2TWQ concludes. Based on our indicative analysis of the Best View we will be connecting between 30 and 35 customers during RIIO-T3 – once those projects captured by ASTI projects have been removed – with around 75% of projects delivering in years 3 to 5 of the price control. Figure 3 (number of connections) and Figure 4 (MW connected) show the shape of the connection delivery which is subject to change following connections reform. This delivery profile means very little overall incentive value will be lost if the incentive adoption is delayed to Year 2 of the price control.



We believe that the metric used within the target baseline should be the MW's delivered on an annual basis. The MW value will be based on the portfolio of projects delivering in each year as the initial baseline. This baseline will require to be updated following G2TWQ application windows to account for

any changes to generation connection dates or additional capacity under specific technology types to be filled. If a generator pushes their date back via a Mod App then the updated delivery date will be adjusted within the ODI target.

It is our view that successful delivery of the connection should be based on when the assets are commissioned and ready to be used by the connection customer even if they are not ready to connect. This approach incentivises the delivery and commissioning within our control and removes any delay that may be caused by the commissioning of the customers assets.

Valuing the Incentive

We are supportive of the overarching scale of the incentive for RIIO-T3. As the delivery of connections will not be a consistent volume for each year of the price control it means in specific years the reward and penalty values may be above the defined ODI cap and collar (+0.4%/-0.2%). Therefore, we propose that Ofgem should consider valuing the incentive as a 5 year +2% / -1% RoRE and the annual phasing of the ODI is reflective of the overall 5-year delivery profile.

This will impact the level of incentivisation available if the connection activity is heavily weighted to certain years within the RIIO-T3 price control, as the maximum reward will be 0.4% across those years with no opportunity to achieve that in the other years.

Our view is that the incentive value per +/- bps/MW would be used to value the incentive once the target volume baseline is calculated.

As an example, a network company delivering 5000MW would earn an incentive at 0.04 bps/MW (5000/200) and this would be scaled across delivery years such that the incentive profile matched the proposed installed capacity value set at the end of G2TWQ. Similarly, the penalty would be derived across the full five-year period as 0.02 bps/MW (5000/100). Illustrated in Table 6 below.

Table 6 - ETQ7 Incentive Delivery Profile

Year	MW Delivered	Reward
Year 2	500	20bps
Year 3	500	20bps
Year 3	1000	40bps
Year 4	3000	120bps
Total	5000	200bps

The incentive value would be calculated on the net position across the portfolio. Where a network company delivers 450MW against a target of 500MW the net position would be the incentive value i.e. Incentive Value = (450*0.04) – (50*0.02) = 17bps RORE cash equivalent. We would also be supportive of exploring the use of a sliding scale approach to reward what will be extremely challenging delivery programmes and to avoid a cliff edge impact of reward into penalty. We welcome further engagement with Ofgem

Exceptional Events

There are material drivers of delay that are outside of our control that would require the date of delivery to be adjusted. The list below sets out some of the key delay drivers, but this is not an exhaustive list of potential delay drivers.

1. **Customer Mod Apps:** Where connecting customers change their connection date this should be updated within the target baseline.
2. **NESO requests:** The NESO may cancel outage windows for connection projects, meaning that the next available outage, could be the next outage season as we are unable to take outages across winter. Any request from the NESO to delay a connection should result in a connection date change under the ODI.
3. **Planning & Public Land Inquiries:** The current planning regime in Scotland is inefficient and unpredictable, providing no certainty on how long consent will take which can pose an issue when it is a fundamental component of delivering infrastructure which will have a material impact on the Connection ODI. The planning regime also means that the threat of a Public Land Inquiry is a real risk for timely project delivery.

The use of deadband or re-basing the target are appropriate mechanisms in dealing with delays that are outside of our control and difference in connection dates, due to for example NESO outages. We set out views on this below

Delivery Risk Deadbands

To minimise the regulatory burden of exceptional event claims, we propose that a deadband is used for small delays in projects that are clearly out with the control of the TO which should be set at **least 12 months**. This level of deadband reflects delays we are seeing across our portfolio of projects that are outside of our control.

Automatic Re Baselining.

An alternative to the deadband approach to address connection projects which are clearly identifiable as driving an under-delivery due to material factors outside network company control, is normalising out of the delivered output MW profile for these projects. Where this is the case the incentive value of the effective +/- bps/MW would be neutral and would not be available to the TO. This would be reported via the RRP and subject to annual performance reporting, with scrutiny from, customers, NESO and Ofgem. Stakeholder scrutiny of connection dates and the elimination of incentive rewards will give Ofgem assurance that TO reporting will be accurate and reflect relevant factors. Should Ofgem disagree with our rationale, exclusions can be reinstated.

We will continue engaging with Ofgem on the development of this ODI through to Final Determinations.

ETQ8. Do you agree with our proposed design of the Community Benefit Funding pass-through mechanism?

We are supportive of the proposal to treat Community Benefit Funding (CBF) as a pass-through cost. This provides certainty in a proportionate and pragmatic way, consistent with how we manage other mechanisms, such as business rates. The proposed use of the Regulatory Reporting Pack (RRP) and Annual Iteration Process (AIP) for annual cost recovery offers a suitable structure, given the forecast-based and variable nature of these costs.

The Draft Determinations establish a formulaic, measurable calculation for community benefit contributions based on the DESNZ Guidance; however, they lack the required detail on how allowances should be recovered and reported on.

Administrative costs

The UK Government's guidance acknowledges that administrative costs may be higher than 10% in exceptional circumstances. Recognising this flexibility within the regulatory framework would help Transmission Owners deliver inclusive and responsive community benefit programmes in line with the UK Government's policy objectives.

We plan to apportion half of the fund to a single regional fund in order to significantly reduce overheads and enable the development of transformative community projects with lasting socio-economic benefits. Additional savings can be achieved by pooling costs at the portfolio level where feasible. We are also open to exploring further efficiencies through standardised approaches for smaller funds. Further work is required to ensure full alignment with the guidance.

We disagree with classifying feasibility studies as administrative costs. These studies are often integral to project delivery, not overheads. Including them in the 10% cap could distort the admin cost base and limit effective management. It may also encourage communities to request unnecessary feasibility work given the absence of direct costs, leading to inefficiency and resource misallocation.

We anticipate that the majority of our projects will sit closer to the 10% limit due to the nature and scale of delivery and the need to support community capacity building, which is essential to ensure under-resourced areas can access funding.

Without sufficient investment, less-resourced communities are likely to lose-out, deepening inequalities. We therefore recognise that we may be subject to additional scrutiny on administrative costs from the outset and would welcome continued engagement with Ofgem to ensure this position is appropriately managed.

Forecasting & phasing of spend

We look forward to further detail from Ofgem around how allowances will be set and in particular around phasing of funding.

- A lump-sum approach, as implied in some interpretations of the guidance, may introduce financial volatility, particularly where costs are incurred in one regulatory year but not matched by revenue.
- Phased annual recovery, aligned with actual expenditure, offers a more stable and predictable funding model and avoids any mismatch between income and cost.

As part of final determinations Ofgem should confirm a phased model, and that the annual funding drawn down will match actual expenditure rather than rely on pre-funding or retrospective adjustment.

We will calculate the total forecast expenditure for CBF in line with the UK Government guidance and provide this updated figure to Ofgem ahead of Final Determinations.

Reporting Process

Details of the reporting requirements and process will need to be agreed before the start of the control period to ensure that TOs are able to collect data in a way that meets Ofgem's requirements.

We would propose that the Regulatory Reporting Pack (RRP) is used to provide Ofgem with a detail of actual and forecast spend compared to allowances as well as spend on administrative costs and any other information Ofgem requires.

ETQ9. What are your views on our consultation positions for the TOs' EAP commitments in RIIO-ET3?

We welcome Ofgem's proposals and acknowledge several areas of alignment and the acceptance of the majority of our EAP ("Sustainability Action Plan" or SAP) commitments. However, it is essential to highlight a fundamental inconsistency. While Ofgem proposes to approve the majority of our SAP, this position is misaligned with its assessment of our Closely Associated Indirects (CAIs) and Business Support Costs (BSCs), which have seen a significant cut. In effect, although Ofgem acknowledges our commitments, it does not provide the funding required to deliver them. The SAP is therefore not funded.

We must also express clear disagreement with several aspects, particularly the rejection of key elements of our SAP. These decisions significantly limit our ability to deliver not only the ambition set out in the SAP, but also the foundational requirements of our capital programme. Specifically:

- Embodied Carbon: The rejection of our proposal under the Low Carbon Construction UIOLI fund curtails our ability to decarbonise infrastructure projects.
- Natural Capital: Our natural capital approach encompasses both BNG and species and habitat restoration. The rejection of the need for our marine biodiversity commitments is deeply concerning. These activities are core to securing planning consents and reflect growing regulatory requirements, including emerging government duties on marine restoration (see SHETQ2). It is imperative that Ofgem recognise this requirement now and approve funding (likely via Project Assessments). Regarding species and habitat restoration, there is clear community and stakeholder expectation for us to go above and beyond the basic compliance requirements of BNG. This ambition underpinned our proposal for a UILOI fund.

These decisions restrict our ability to meet even the basic requirements of our capital programme, such as securing planning consents, reducing embodied carbon in line with Ofgem's own standards, and delivering restoration aligned with global best practice. This is before we even begin to pursue the higher ambitions of our SAP to meet what community and stakeholders value.

Notably, these areas – where we have shown clear ambition – were not recognised under the Business Plan Incentive (BPI). We believe Ofgem has misunderstood both the scale and intent of our sustainability requirements. These disagreements are not merely technical - they reflect a fundamental divergence in ambition. Without reconsideration, Ofgem's current position risks undermining our ability to deliver a world-leading sustainability strategy.

We also disagree with Ofgem's criticism of our SAP content on Transmission losses. Addressing losses is now business-as-usual and we already take all reasonable and cost-effective actions within our power to address losses we provide further detail on losses below.

Business Carbon Footprint and Science Based Targets

We welcome Ofgem's acknowledgement that there are no areas in which our carbon performance is lacking in comparison to other TOs. Ofgem acknowledges in section 3.130 of the ET Annex that our performance on IIGs is "industry leading" and that our baseline from 2018/19 was particularly low compared with the other TOs.

However, it is critical to underscore that our ability to meet Science-Based Target initiative (SBTi) goals is conditional. We will only achieve these targets if two criteria are met: 1. we secure the funding required to deliver our SAP initiatives; and 2. we successfully implement our SAP commitments.

This dependency was clearly articulated in the GHG emissions scenarios submitted to Ofgem via the BPDTs. Ofgem requested a 2x2 matrix exploring scenarios with/without RIIO-T3 initiatives and highest/lowest likely impact. We met this requirement through detailed bottom-up modelling of Scope 1 and 2 emissions, supported by extensive data and a robust methodology.

The scenarios are presented in BPDT Table 9.17 Environment, cell H167.

- With/without RIIO-T3 initiatives was straightforward to model.
- Highest/lowest likely impact required interpretation:
    - For the highest likely emissions (worst case), we assumed average IIG performance and continuation of current transport trends. Consistent with our focus on improvement, we set our historic IIG average as the future worst case.
    - For the lowest likely emissions (best case), we assumed our best historical IIG performance plus a package of transport interventions. These assumptions are credible and backed by commitments in our SAP.

Only one scenario - RIIO-T3 initiatives / lowest emissions - achieves our 2029/30 SBTi target. This reflects the stretch nature of SBTi goals and the necessity of pairing capital interventions with strong operational performance. To suggest that these targets can be met without fully funded SAP initiatives and/or ambitious action demonstrates a fundamental misunderstanding of the ambition embedded in the SBTi framework.

We therefore challenge any implication that limited or lesser action and funding could credibly deliver ours, or any, SBTi commitments. Without the necessary support, our ability to meet these targets is not just constrained, it is compromised.

Ofgem also notes our intention to set new targets in line with best practice. We reaffirm our ongoing commitment to science-based targets, as clearly set out in our Sustainability Strategy and SAP.

- **Building energy:** We welcome Ofgem's position to accept in full our proposal to roll out energy monitoring for substations (SAP initiative indicator 2.b) Rollout energy monitoring for 100% of substations by 2030, part of Integrated Condition Performance Monitoring (T3-EJP-035)). However, this requires that Ofgem fully fund our Integrated Condition Performance Monitoring proposals.
- **Supply chain:** We welcome Ofgem's approval of our supply chain-related commitments and agreement to fund these in full.
- **Resource use, waste & circular economy:** We welcome Ofgem's approval of our resource use, waste and circular economy commitments and agreement to fund these in full.
- **Environmental pollution:** We welcome Ofgem's approval of our environmental pollution commitments and agreement to fund these in full.
- **Transport emission/ ZEVs** We welcome Ofgem's recognition in funding low carbon vehicles. As signatories to EV100, we are committed to decarbonising our fleet and to installing the charging infrastructure required to support this. We note that our proposal in relation to charging infrastructure meets with Ofgem approval (SAP initiative indicator 2.c) EV Chargers (T3BP-EJP-039)). We disagree with Ofgem's position on ZEV PCDs. Please see our response to OVQ3 for further detail.

Transmission losses

Ofgem notes in section 3.102 that the inclusion of transmission losses in the BCF of both NGET and SPT could "…risk distorting the view of TO performance in more directly controllable emissions areas." Our inclusion of losses in Scope 3 is in recognition of this fact, enabling us to concentrate our efforts on more directly controllable emissions sources such as IIGs and transport, and on emissions associated with embodied carbon over which we have influence.

Our Sustainability Action Plan contained an ongoing target to reduce the carbon intensity of transmission losses by 50% by 2030. This remains one of our Scope 3 science-based targets as accredited by SBTi and we continue to make strong progress against this target.

Progress to date has been enabled through the increasing proportion of renewable energy connected to our network – our network transmitted 19.041 TWh of electricity in 2024/25, of which 17.085 TWh was renewable.

Emissions from electricity transmission losses are affected largely by the energy market and the operation of the system. In 2024/25, the emissions intensity of the electricity on our network, and therefore of our losses, reached a record low of 0.038 kgCO2e/kWh.

Actions to reduce losses

We recognise that network losses are likely to rise in the years ahead as our network grows and as power flows across the GB network evolve. We are taking action now to keep them as low as possible. We are already addressing losses in several ways and will continue to do so in RIIO-T3:

- **Smarter investment choices** – We factor in the full lifetime cost of equipment, including the carbon impact of losses, when purchasing new transformers at any voltage. This ensures we select the most efficient and cost-effective designs.
- **Better conductors for lower losses** – When building or upgrading overhead lines, we select materials with lower resistance and, where appropriate, larger conductor sizes, particularly for new wind farm connections.
- **Exploring new low-loss technology** – We have trialled Aluminium Conductor Composite Core and will consider wider deployment if remaining maintenance challenges are resolved.
- **Reducing current with smarter control** – Dynamic Reactive Compensation at substations reduces the current flowing through conductors, lowering overhead line losses.
- **Targeted monitoring and analysis** – We are improving our tools to pinpoint exactly where losses occur. By combining control room data with power flow studies, we can target future loss-reduction measures more precisely.
- **Tracking emerging solutions** – From coated conductors to high-temperature, low-sag designs and, possibly, even superconductors, we are monitoring innovations that could reduce losses while maintaining performance.

By combining better design, smarter technology, and ongoing innovation, we are working to keep our network efficient and its environmental footprint smaller. For further information on losses, please see our response to ETQ10.

Embodied carbon

We welcome Ofgem's proposal to accept and fund our commitment to achieve alignment with the PAS2080 carbon management standard and verification of the same. However, we disagree with Ofgem's comment that we "Do not have an emissions-based Scope 3 target". This is not entirely correct.

Our SBTi-accredited targets for Scope 3 are to a) reduce scope 3 transmission losses emissions GHG intensity by 50% by 2029/30; and b) reduce indirect emissions by ensuring that two thirds (67%) of our suppliers by spend will have an SBT by 2024/25.

Our Sustainability Action Plan also set out our commitment to setting a new science-based Scope 3 target before the end of RIIO-T2, drawing on the latest science and stakeholder input. To this end, we modelled the emissions reductions needed to align with the Paris Agreement and established that we would need to reduce embodied carbon emissions by 30-35% on an intensity basis by the end of RIIO-T3. Whilst not currently an accredited target, we included this goal within our Sustainability Action Plan and in the BPDTs. We have also assessed the likely funding required to implement low carbon actions to achieve this target. This assessment directly informed our proposal for a Low Carbon Construction UIOLI fund.

We are concerned by Ofgem's determinations that reject proposals by all three TOs for a Low Carbon Construction UIOLI fund. Ofgem's RIIO-T3 Business Plan Guidance sets clear expectations for Transmission Owners to set a baseline and adopt a target for reducing embodied carbon on new projects during RIIO-T3 and to collaborate with the supply chain on addressing challenges to reduce embodied carbon in the network. We are committed to these goals, but delivery is not feasible without appropriate funding mechanisms. Our response to ETQ43 sets out further detail on our position.

Biodiversity and natural capital

We strongly welcome Ofgem's position that the delivery of 10% BNG in Scotland will be fully funded, and the recognition that this target "does not prevent BNG above 10% if required" (for example by a planning authority) but also strongly disagree with the rejection to our commitments and funding for certain sustainability proposals.

Ofgem's engagement with the Scottish Government on biodiversity is very welcome, as is the regulator's recognition of the need for flexibility in BNG delivery depending on project requirements and the latest guidance from relevant bodies. In particular, we welcome the recognition that delivery can be either onsite or offsite, and that this may "include strategic investments in addition to meeting national planning policy and consenting requirements, used to achieve 10% BNG."

However, we strongly disagree with Ofgem's draft position to reject our commitments and associated funding for the delivery of marine restoration and location-specific funding to address the impacts of our infrastructure on species and habitats. It is particularly disappointing to see that our detailed responses to SQs (SSE092, SSE141 and SSE154) do not appear to have been taken into consideration in Ofgem's draft determinations.

Ofgem cites concerns about a significant increase in expenditure on biodiversity from RIIO-T2 to RIIO-T3. As Ofgem notes, this is due to the amount of BNG we need to deliver to secure planning consent on a significantly increased capital delivery portfolio, and the costs of delivery as land prices increase. In addition, the planning landscape shifted during RIIO-T2, now requiring TOs to go above "no net loss" and to deliver biodiversity net gain. This shift in the requirements on TOs is outwith our direct control. Our SAP and BPDT submissions provided costings for delivery of BNG, drawing on experience to date and the best available data, with the aim of providing cost transparency to Ofgem.

Ofgem cites concerns about the deliverability of BNG as part of the rationale for rejecting our marine restoration and species and habitat commitments. We have demonstrated sector leadership on BNG in RIIO-T2, delivering BNG on all projects gaining consent since May 2023. With the required funding and the ability to deliver strategic investments, we do not believe there is cause for concern about the deliverability of BNG. [redacted]

The consumer value proposition of our nature restoration investments is clear. Nature restoration investments offer more than ecological benefits. They deliver compelling economic returns, health and welfare gains, and the potential to deepen community support for infrastructure projects. For example, by embedding restoration, we can help safeguard and elevate the landscapes that fuel the region's thriving tourism economy, driving measurable value across multiple fronts:

- Nature-based recreation yields £120,000 per hectare in welfare value (Green Book).
- Nature-based recreation, including walking, cycling, parks, and wildlife watching provides £9.56 average spend per activity in Scotland, well above the UK average (ONS).
- Outdoor nature activities saw a 30% rise in participation from 2011–2016, nearing 1.5 billion activity instances in GB (ONS).
- Each active visit to greenspace generates up to £14 in individual health benefits. (UK Green Book).
- Cairngorms National Park alone generated £419 million for the local economy in 2023 from an estimated 2.15 million visits, supporting over 5,400 full-time equivalent jobs (Scottish Tourism Alliance).
- The health benefits of visits to this single national park in a year are valued at over £30m, far exceeding the value of our proposed Species & Habitat fund (£26.7m).

In addition to this example, investing in nature restoration, including in marine habitats, directly addresses public concern about the impacts of transmission infrastructure on the natural environment:

- 71% of UK adults believe not enough is being done to protect the environment for future generations. (Wildlife and countryside link)
- 69% of c.2,000 letters and emails sent in response to our ASTI consultations concerned the Environment, Wildlife, Habitats, Nature or Biodiversity, demonstrating that the public is concerned about the impacts of our infrastructure on nature, and underscoring the importance of investing in this area as a way of building our social license to operate.

Ofgem's proposal to reject marine restoration runs contrary to its support for strategic investments to meet consenting requirements. Both Orkney Islands Council and Shetland Islands Council have required marine restoration as a condition of consenting for our developments, and we understand from engagement with the Scottish Government's Marine Directorate that national requirements for marine restoration will be established during RIIO-T3. Further information on the consumer value proposition, stakeholder demand and alignment with legislative requirements can be found in our response to SHETQ2.

A full response to our position on Ofgem's proposal to reject the species and habitat fund can be found in response to SHETQ3.

ETQ10. Do you have any views on whether the Innovative Delivery Incentive and/or SO:TO ODI-F should be used to incentivise TO action regarding transmission losses?

We believe there is no scope for the SO:TO ODI and limited scope for the Innovative Delivery Incentive (IDI) to be used for addressing losses on our network. Under the IDI ODI there may be scope where solutions are innovative and go beyond what we already do in addressing losses as business-as-usual. These solutions may develop as we move through the RIIO-T3 period.

It is important to note that electricity transmission losses are a function of power flows across the GB electricity network and are therefore more attributable to the activities of the GB energy market and the actions of the National Energy System Operator (NESO). Power losses on our network are mainly determined by the overall power dispatch. However, as a Transmission Owner (TO), we do not dispatch generation and demand on the transmission system – this is mainly driven by electricity market activity, with system balancing being a responsibility of NESO under its licence.

Due to the above reasons, our role is critical but limited. We focus on our role in the specification of assets we install on our network to ensure that we take into account their lifetime losses impact and cost.

Within our business-as-usual activities, we are actively taking several measures to counteract this expected upwards trend in network losses, in line with our strategy towards losses and will continue to do this throughout the RIIO-T3 period. These include:

- Taking into consideration the whole life cost, including losses and their associated carbon cost, our investment decisions to ensure efficient and economic designs for the specification and procurement of new Transformers at all voltage levels (GSP, Generation Transformers, SGT).
- Including losses in our conductor selection criteria during the upgrade and construction of overhead lines on our network. Preference is given to conductor materials with lower resistive values and larger conductor sizes are selected for new wind farm connections, where appropriate, which acts to reduce the losses on the line.
- Investigating the use of new low-loss conductor technologies, such as Aluminium Conductor Composite Core (ACCC). These have been trialled and a wider implementation on the network will be considered, dependent on the resolution of remaining barriers concerning the maintainability of these assets.

- Implementing Dynamic Reactive Compensation (DRC) within our transmission network as part of the upgrades. By providing reactive power locally at the substations DRC reduces the current flows through the conductors, resulting in decreased overhead line losses.
- Working to improve our modelling, analysis, and monitoring tools to gain detailed insight into the disposition of losses on our network. As part of this we plan to draw on operational data available to the control room and feed this into power flow studies, with the aim of creating a more granular view of the losses on the network. This will allow, potentially, for a more targeted approach of future losses reduction measures.

Therefore, we do not believe that reducing losses is within the scope of either ODI.

ETQ11. Do you have any views on our proposed approach to biodiversity funding, notably whether it is appropriate or not for consumers to fund biodiversity outputs beyond legislative requirements?

Yes, we believe it is both appropriate and necessary for consumers to fund biodiversity outputs beyond legislative requirements. We are delivering above the BNG and environmental legislative requirements because:

It delivers Operational and Strategic Benefits
Funding biodiversity beyond the legal minimum requirement enables us to proactively address environmental concerns that often lead to planning objections, legal challenges, and project delays. By going beyond compliance, we demonstrate a commitment to consumer value and environmental leadership, which is increasingly expected by regulators, communities, and stakeholders.

Not addressing biodiversity adequately presents a material risk to project delivery. The cost of a single delayed project, due to environmental objections, can far exceed the targeted investment proposed in our business plan. These delays may result in missed regulatory deadlines with potential compliance consequences, increased contractor costs and resource inefficiencies, and reputational damage.

In contrast, by investing in biodiversity outputs beyond the legal minimum, we can act swiftly and flexibly to:

- Pre-empt environmental objections from statutory consultees, NGOs, and local communities.
- Streamline planning approvals by demonstrating environmental stewardship.
- Increase social licence to operate and public trust.
- Build stakeholder trust, leading to smoother engagement and fewer contested decisions.

Therefore, funding biodiversity outputs beyond legal requirements is both appropriate and necessary. It enables us to avoid costly delays, strengthens stakeholder trust, and aligns with national biodiversity goals, which ultimately delivers greater consumer value through more efficient, resilient and sustainable project delivery.

It serves Legislative Requirements

We disagree with Ofgem's stance on limiting biodiversity funding to 10% Biodiversity Net Gain (BNG). In Scotland, there is no fixed percentage mandated by the Scottish Planning Metric, and local councils apply their own discretion. As a result, we must be prepared to deliver more than 10% BNG, if obligated through planning decisions.

In practice, all offsite BNG schemes exceed 10% threshold as it is not feasible to match the exact requirement. Local authorities also have the power to require BNG above 10%, making delivery beyond the 10% threshold both common and necessary to meet planning requirements.

It provides Regulatory and Strategic Alignment

Public bodies are expected to align their actions with Scotland's Biodiversity Strategy and Delivery Plan[2], which includes restoring degraded ecosystems, enhancing green infrastructure, and supporting species recovery.

Our biodiversity initiatives not only meet current obligations and support Ofgem's compliance with its biodiversity duty but are also forward-looking and resilient to future changes. We have proposed a range of mechanisms specifically designed to address the breadth of biodiversity challenges, ensuring both regulatory and strategic alignment with Ofgem's Biodiversity Duty[3]. in the evolving biodiversity landscape.

Flexible funding mechanisms

We believe the current Ofgem funding proposal is not aligned with a nature-positive future. At present, there is no terrestrial nature funding beyond Biodiversity Net Gain (BNG) and Irreplaceable Habitat Compensation. These mechanisms are either site-specific or constrained by eligibility criteria, leaving many projects, particularly those outside BNG metrics or not qualifying for peatland or ancient woodland restoration, without adequate support. This gap restricts the ability to deliver strategic, landscape-scale conservation actions that are essential for ecological integrity and stakeholder confidence. Delivering in a nature-positive way requires organisations to go beyond mitigation and implement additional conservation actions [4].

To address this, we proposed targeted flexible funding as new requirements appear during the price control: **BNG re-opener mechanism and the Species and Habitat UIOLI fund**. This is due to:

- Environmentally, these mechanisms enhance biodiversity, strengthen climate resilience, and support the restoration of degraded ecosystems.
- Economically, they help avoid costly delays, reduce mitigation expenses, and improve project efficiency.
- Socially, they build public trust and secure the social licence to operate, critical for delivering infrastructure in sensitive landscapes.
- By aligning financial flows with nature-positive outcomes and shifting investment patterns to support climate and nature goals, these mechanisms directly support the UK Government's 2030 Strategic Framework and Scotland's biodiversity targets for 2030 and 2045.

Our proposed **BNG re-opener mechanism** supports us in meeting our legal obligations to deliver BNG while aligning with Ofgem's statutory biodiversity duty. It allows Ofgem to maintain strong ex-ante controls while providing flexibility to address edge cases and unforeseen challenges, safeguarding long-term consumer value. Further benefits and details are outlined in SHETQ10.

Our **Species and Habitat Fund** is a targeted mechanism that complements existing frameworks while addressing their limitations. Unlike BNG, which is tied to planning conditions and delivers delayed impact, the UIOLI fund enables proactive investment in species-specific interventions, ecological research, and connectivity improvements. Designed to operate across our national footprint, it supports restoration at

[2] Scottish Biodiversity Strategy to 2045: Tackling the Nature Emergency in Scotland

[3] Ofgem's Evaluation Strategy

[4] Biodiversity offsets - resource | IUCN

scale and aligns with Ofgem's recognition of the need for coordinated and strategic environmental delivery. It supports Scotland's national biodiversity targets, specifically "Be Nature Positive by 2030" and "Restore and Regenerate Biodiversity by 2045" and aligns with the UK Government's 2030 Strategic Framework principles to "Align financial flows with a nature-positive future" and "Shift investment patterns to support climate and nature goals." We list out more benefits and details in SHETQ3.

Therefore, we believe it is appropriate and necessary for consumers to fund biodiversity outputs beyond legislative requirements. Our proposal on BNG reopener and Species and Habitat Fund has put the above into consideration and supports Ofgem's duty in a more strategic, inclusive, and forward-looking approach.

Conclusion

Ofgem must be flexible in the funding of biodiversity commitments. These in many cases will be required to go beyond the minimum. It provides significant benefits to TOs, communities and the environment. Given the uncertainties in this area we require flexible funding mechanisms in the form of the BNG reopener and Species and Habitat UIOLI.

ETQ12. What are your views on our consultation position for the IIG ODI-F target methodology in RIIO-ET3, in particular the bespoke treatment of SHET?

No, we do not fully agree with Ofgem's consultation position on the IIG ODI-F target methodology.

We understand why Ofgem has adopted a new methodology of linking the emission targets under the IIG ODI to the science-based targets (SBT). However, as stated within our business plan and subsequent engagement with Ofgem, we do not agree with this approach and the extremely low emission target baseline that has been provided as part of the Draft Determinations. However, we are supportive that Ofgem has recognised this challenge and provided a deadband which will remove penalty until a level of performance which is above our targets.

Therefore, we acknowledge Ofgem's consultation position so long as there is provision of the deadband. However, we remain concerned that given the likely incentive outcome will be neutral, it fails to provide confidence that we would benefit from strong outperformance. This undermines its potential as a reward and penalty incentive to drive the right behaviour, in the context of the within the wider package. For SSEN Transmission this is a penalty only mechanism.

Target Baseline

We believe the baseline target proposed as part of DDs reflects the maximum level of performance we will be able to achieve and offers very limited ability to outperform in comparison to the other TOs. This ODI for IIG is essentially a penalty only incentive with challenging targets and limited reward if these targets are met.

Bespoke Treatment

We agree with Ofgem that we should be treated as an outlier under the IIG ODI. We support the use of a deadband to reflect our low IIG emissions rate compared to the other TOs. We agree that the deadband level is set at an appropriate level to reflect the emission levels before a penalty should be applied under the incentive.

As noted above, while we will be protected from disproportionate penalty through the deadband, it will likely be a neutral performance under the ODI in RIIO-T3, but we will be maintaining the level of performance that the other TOs will be rewarded for trying to achieve. This has not been reflected within

the Business Plan Incentive to account for our previous good performance and the role of this incentive as part of the wider incentive package for RIIO-T3.

Exceptional Events

We agree that an exceptional event process is required for the IIG incentive to account for leakage/emissions which are driven by events and which are outside of our control. We understand Ofgem's rationale of applying a materiality threshold to ensure that the event is material enough to reflect the regulatory burden of the EE process. However, it is important to highlight that the emissions under exceptional events are genuinely outside of our control where our ability to mitigate the risk is limited. Applying a 5% threshold adds increased performance risk against already ambitious targets.

We also believe that there should be the ability to aggregate emissions driven by specific exceptional events (e.g. historic inventory leakage) to account for potentially a large volume of emissions that are not real leakage, but a historic reporting issue which will skew performance under the ODI. We also address this within ETQ13.

Other Considerations

In addition, we continue to question the use of the Totex Incentive Mechanism (TIM) within the IIG incentive. With the change in methodology of setting the baseline target, the activities underpinning the incentive have fundamentally changed to being funded totex allowances through removal of SF6 (as well as leakage), rather than works not funded by allowances to minimise leakage (Operation and Maintenance). Therefore, the TIM should be removed from the calculation for IIG.

ETQ13. Do you consider that we should use the IIG Exceptional Event mechanism to manage potential issues with historical IIG inventory data? If so, why?

Yes, we believe that in principle the exceptional event process is an appropriate mechanism to deal with historic IIG inventory data where the actual weight of gas used to fill equipment was historically not always recorded with only the rating plate weight available prior to the RIIO framework being implemented before 2013.

As a responsible operator we intend to report discrepancies between equipment capacity and quantity of gas recovered when we degas assets as they are decommissioned even though there was no indication of the equipment having leaked in operation. It is important to note that we have not decommissioned many SF6 assets within RIIO-T2, and therefore the issue of historic inventory reporting has not been a major issue to date and why it has not been addressed during the current price control.

However, this will be an issue for us as we remove older assets from the network. Given we have a smaller portion of these older assets on our network, this may be less material. However, we are currently working through the detail to fully understand the portfolio of assets which will be impacted during RIIO-T3 and are keen to work with Ofgem and the other TOs to develop appropriate reporting to capture these assets as they are removed from the network.

With the materiality of the issue still uncertain we believe using the exceptional event mechanism provides the right balance between the cost of the regulatory process and impact on the incentive.

However, as noted in ETQ12 we believe that this exceptional event criteria should have the ability to aggregate the impact of this across the price control period. This could be triggered at the midpoint and the end of RIIO-T3 against the percentage threshold of the average emissions to date.

ETQ14. What are your views on our consultation position for the SF6 Asset Intervention PCD in RIIO-ET3?

We agree with Ofgem's consultation position for the SF6 Asset Intervention PCD for RIIO-T3 and approving all outputs proposed as part of our business plan. However, we have concerns with using the avoided emissions as the basis of the PCD. This is not a fixed value as it is based on several assumptions, especially around the counterfactual scenario in which the intervention does not take place. We believe that a more appropriate metric, requiring fewer assumptions, is the specific assets and mass of SF6 we are intervening on. For example, intervention on the level of SF6 within the assets being intervened on. We are keen to engage with Ofgem on drafting this PCD following the Draft Determination response.

We also agree that the replacement or removal with typically non-SF6, across 7 sites, submitted as part of our Sustainability Action Plan, are captured under the Circuit Breaker PCD, and not under the SF6 Asset Intervention PCD. The primary driver of these works is replacing assets based on asset condition and risk posed to network operation.

Secure and resilient supplies

ETQ15. What are your views on our proposals for the RIIO-ET3 ENS ODI-F, including the two different target setting methodologies we have shared?

We generally agree with the RIIO-ET3 ENS ODI-F proposal in terms of the 90MWh target and believe that future network needs, particularly around the impact of strategic demand, need to be considered within this incentive design. Our primary concern is around how materially asymmetric the reward and penalty outcomes are within the ODI. Given the design of this incentive, we do not believe it will provide material returns as part of the wider incentive package, but it is reputationally very important for us as a TO.

We strongly disagree with Ofgem's view that it is similar to the RIIO-T2 collar value and our analysis shows that it is four times higher. We believe Ofgem needs to reduce the collar within the incentive as part of wider calibration, and we are keen to work with Ofgem on this up to Final Determinations. We are aligned with Ofgem's intent to minimise the loss of supply events and to encourage behaviours to achieve the reliability plans that our stakeholders want, and we are supportive of the Exceptional Event criteria rolling over from RIIO-T2. We provide further detail on these specific points below.

- **Target-setting methodologies:** We support Methodology 2 and the use of a 90MWh target. We recognise that this reflects improvements made during the previous and current price controls, while acknowledging future network challenges.
- **Future demand:** The potential for the government's ambitions for future demand to land during the RIIO-T3 price control has not been considered in this proposal and may pose additional challenges to TOs. This has the potential to cause a fundamental shift in impact, changing our risk profile as a result. Large strategic demand connections will change the principles of the incentive and will make the 90MWh target ineffectual. For this reason, the potential to renegotiate targets mid-period may be appropriate. We would appreciate consideration of this by Ofgem.
- **Removing Material Incentive Asymmetry**: Our central concern with the proposal for this incentive is that it is significantly asymmetric, essentially making the ODI penalty-only. We believe the reward and penalty outcomes for this incentive should be symmetrical, and as the

incentive/penalty is currently designed, it is disproportionate, and the risk to reward ratio is unfair.

- **The tighter target, lower TIM, and potentially similar Value of Lost Load level** will also reduce the reward available. We do acknowledge that the VoLL value is still to be determined, which will impact the incentive value.

Therefore, we propose amending the annual penalty collar to -0.1% RoRE, instead of the proposed -0.38%, which is too high and makes the penalty disproportionally large. We believe -0.1% would create a much more proportionate and suitable consequence. It is important to note that Ofgem has the power to investigate reliability performance.

We would highlight a lack of clarity regarding Ofgem's approach to consulting on a final Value of Lost Load (VoLL) figure, and the potential impact this may have on the development of the ENS incentive. We anticipate Ofgem will address this concern through ongoing engagement with the Energy Networks Association's (ENA) VoLL study and expect Ofgem to undertake a consultation process to successfully incorporate the outputs of this study into RIIO-T3.

ETQ16. What are your views on our consultation position for the SO:TO incentive approach to BAU enhanced services in ET3?

We support the principle of transferring activities to BAU under the SO:TO ODI and STPC11-4, but the process and terminology need clearer definition to avoid uncertainty of what can be progressed under the incentive. The transfer of activities should not erode the value driven by the incentive to reduce constraints and deliver significant consumer value as we move into a time where constraints will increase across the network as we move towards 2030.

We agree that there should be a process for transferring certain solutions proposed under STCP 11-4 to BAU as part of the SO:TO incentive in RIIO-T3, and we agree in principle on the need for eligibility criteria in the form of the submitted process charged in Figure 3 of the ET Annex.

However, there are elements of ambiguity in some of the staged criteria, and we believe the process should offer more clarity on which services are eligible for the incentive, and which are not. We have listed the issues to be addressed below.

1. It is unclear how the terminology "force majeure", in Figure 3 of the ET Annex, should be interpreted (see ETQ4 for detail). This phrase can have different meanings in different circumstances. Ofgem should consider whether this is the correct terminology to use in this situation. An explanation is required around which activities this term refers to. For example, whether a "force majeure" include activities which are outside the control of TOs, or outside the control of NESO too. Ofgem should provide examples of situations and parties this may refer to.
2. Also in Figure 3, "mitigating circumstance" is ambiguous. We will require further clarity and examples on what this may apply to. If this term serves as a "catch all" option, we do agree with its use in principle.
3. Further definitions would be helpful to explain the difference between "physically enhance an asset" and "pushing an asset's standard operational boundaries". The provision of examples to explain this would be useful.
4. "Above and beyond TO licence obligations" requires clarification. For example, whether this might apply to solutions not included in a TO's RIIO-T3 Business Plan.

These clarifications will ensure that SO:TO ODI continues to deliver significant value to consumers through the RIIO-T3 period.

ETQ17. Do you agree with our proposal to introduce a clawback mechanism in the SO:TO ODI-F for enhanced services requested that are unfulfilled?

We do not agree with the proposal to introduce a clawback mechanism for the reasons listed below. The proposed claw back mechanism for the SO:TO ODI-F is highly subjective, particularly around valid reasons for claw back and definitions of "failure to deliver." In our view this mechanism would require clear distinctions and definitions, without this the mechanism risks being misapplied and could unfairly penalise companies for outcomes outside their control. Even with definitions this mechanism would warrant significant oversight from Ofgem, and in our view an inappropriate use of regulatory resources.

1. To ensure an objective and consistent approach through this mechanism, it would be essential to provide significant detail and rigour to set out a framework of valid reasons for the clawback. This would be a tortuous and highly prescriptive process.
2. The current proposal for the mechanism has the effect of turning the ODI from reward only to a reward/penalty incentive. An applicable example is our Kinardochy works. We delivered the agreed solution but also extended the outage requirements of the project at the same time. NESO initially deemed this to be counter-productive, such that we were not entitled to any portion of the consumer benefit, forecast, or outturn. The two elements of work were independent i.e. without the enhanced service, the additional project outages would be required anyway. Therefore, it is illogical to deny reward for a delivered solution by claiming that the additional constraint costs incurred by the extra outages "cancel out the benefit", forecast, or outturn.
3. Point 3.193 in the ET Annex describes NESO information that TOs have “declined” to provide enhanced services. There is no recognition from Ofgem that declining to provide an enhanced service is different from failing to provide an agreed enhanced service. Therefore, the intended meaning of this paragraph is unclear.
4. In Point 3.195, the term “failure to provide” enhanced services are not clearly defined by Ofgem, so risks being interpreted differently by different parties. This could be down to planning consents, landowner access, contractor availability, or many more reasons.

Although we do not endorse the introduction of a clawback mechanism, we have outlined below several recommendations should it proceed:

1. The question of TO's declining enhanced service requests needs more careful thought, as the TO may decline it for good reason. This could be defined in the form of categories. For example, the proposed enhancement is undeliverable, there is a lack of resource, or there are long lead times on key components.
2. Failure to deliver also requires definition. We suggest this could be split into two -
   i. Failure to implement the scheme (the infrastructure/tools/software required to create the conditions to provide the enhanced service). This could at worst mean NESO does not hand over the estimated implementation cost to the TO.
   ii. Failure to use the scheme (instances of utilising said infrastructure etc to create the opportunity for consumer benefit via reduced constraint costs). This would intuitively mean that there would be no "outturn" reward for the TO. Less obvious is whether the TO is entitled to the "forecast" reward, as the reason for not utilising the scheme could be reasonable and/or out of the TO's control. This brings us back to categorising a list of valid reasons for not utilising a given scheme, in which cases the TO would still be entitled to the forecast reward.
3. In the case of failure to deliver, the agreed costs of implementing the enhanced service should be covered if the solution is delivered.

ETQ18. Which of the three options for managing differing approaches between TOs do you think would work most effectively in the SO:TO ODI-F?

We do not believe that any of the three options proposed by Ofgem are appropriate for addressing the different approaches taken by TOs to fund the physical enhancements such as Dynamic Line Rating. The three options add increased complexity to the SO:TO ODI and may impact the effectiveness of the incentive policy intent of reducing short term constraint costs and impact the level of consumer benefit that can be achieved under the SO:TO ODI. We believe that longer term and whole system outcomes that reduce constraint costs are delivered through the network upgrades through ASTI, CSNP-F and network reinforcement projects and not solely through the SO:TO ODI-F.

A TO should not benefit via the incentive, when others have been funded through the price control for the delivery of the physical elements of the enhanced service or a different approach to establishing a solution. For example, funding the physical installation of DLR through the Load UIOLI rather than through the STPC11-4 process.

It is important to highlight that the consumer benefit under the SO:TO ODI-F is realised when the NESO instructs an STPC11-4 request for the enhanced service, not the installation of the DLR onto the network. The value is derived by the NESO's cost benefit analysis and system requirements across very different network configurations.

We believe that the TOs provide this service on a consistent basis to the NESO, and it is this service and the associated reduction in constraint costs that should be incentivised under the SO:TO given the material benefit delivered to consumers. As a responsible operator we are always looking to drive innovation to deliver consumer benefit which the incentive in its current form allows for.

ETQ19. Do you agree with the need to introduce an Innovative Delivery Incentive to drive the five behaviours that we have identified, and do you consider that there are any behaviours that are missing?

We recognise Ofgem's rationale for proposing an Innovative Delivery Incentive (IDI), however we have highlighted concerns regarding the design and calibration of this incentive in our response to ETQ20.

We agree with the principle of driving behaviours that go beyond meeting delivery milestones to encompass the quality and efficiency of delivery approaches. With respect to the five proposed behaviours, we acknowledge that the behaviours identified are broadly aligned with areas where networks can deliver meaningful consumer value, specifically:

1. **Savings in supply chain/contracting:** We agree this is a key area. Proactive engagement with supply chain partners is essential to ensure we can share risks and work closer together to reduce costs, improve delivery certainty, and maximise consumer value.

2. **Innovations in design/engineering:** We support this behaviour and see opportunities to explore innovative design choices, such as novel materials, modular construction, and digital engineering that can enable faster delivery while reducing long term costs and environmental impacts.

3. **Speeding up delivery:** We agree this is essential, which is why we selected FASTER as a focus area in our RIIO-T3 innovation strategy. For example, early-stage actions such as planning and consenting may seem like a small part of a project, but efficiency here has a much larger knock-on effect on the speed of delivery.

4. **Collaboration with NESO on strategic planning and outages:** We support this and welcome the recent publication of NESO's Innovation Strategy. Collaboration on outage planning and the CSNP has the potential to smooth delivery, minimise disruption, and better support alignment of TO investment with system needs.

5. **Rollout of NIC/NIA/SIF innovations:** We agree with this inclusion, however, we seek clarity from Ofgem on whether the earlier behaviours, such as supply chain efficiency, innovative design, faster delivery, and collaboration with NESO, would still be eligible for reward where innovations are funded by NIA or SIF funding, given the specific inclusion of a separate behaviour on NIC/NIA/SIF rollout.

While the five behaviours are well targeted, we propose that embedding sustainability and low carbon approaches into delivery should also be recognised. This reflects the growing need to ensure that delivery not only happens quickly and efficiently but also supports the UK's net zero commitments, minimises environmental impact and leaves a positive legacy. Examples could include reducing embodied carbon in construction, enhancing biodiversity outcomes, or integrating circular economy principles into supply chain approaches.

ETQ20. What are your views on our proposed design of the Innovative Delivery Incentive?

We broadly agree with Ofgem's rationale for incentivising innovative approaches to delivery. We agree with Ofgem's view that setting ex-ante allowances later in the project development through Project Assessments provides important protections for consumers by reducing exposure to high and asymmetric risk, however, this can unintentionally dampen incentives for early-stage innovation as the benefits of innovative design and delivery are absorbed into allowances.

It is important to note that a number of our strategic projects being delivered under ASTI are already through the design stage where early innovation can be realised. We ask that this incentive can allow for retrospective inclusion of these activities within the RIIO-T3 incentive.

Unless there is material development of the incentive design to ensure a genuine and credible prospect of upside, Ofgem must revisit the cost of equity in line with the weakened incentive framework for SSEN Transmission in RIIO-T3. As it stands, we do not believe there is a realistic pathway to achieve the proposed 50-100bps upside, and the inclusion within the package could mislead investors on the available performance of the TOs in relation to the wider financial package. The proposed incentive, while acknowledging it is at an early stage, fails to provide any confidence that there is credible outperformance. As such, it undermines the financial integrity of the RIIO-T3 package.

We would highlight significant concerns regarding the design and calibration of the Innovation Delivery Incentive (IDI) to effectively achieve this goal. Our key concerns with Ofgem's proposed design of the Innovative Delivery Incentive (IDI) can be capture by two points:

1. **Measurement Subjectivity**:

We have concerns regarding the implementation of a panel approach within the ODI Framework, based on our experience with the Stakeholder Engagement Incentive (SEI) under the RIIO-T1 price control. The outcome of the SEI was highly subjective, with an unclear scoring methodology that made it difficult to understand how the final score was determined.

The adoption of a panel-based assessment process for the IDI introduces uncertainty about the level of reward associated with the delivery of innovative solutions. The panel assessment may not directly correlate with the risks undertaken by the Transmission Operator (TO) or the level of short- and long-term

consumer benefit. This concern is further compounded by the fact that guidance outlining the assessment process is not expected until the first year of T3.

A subjective approach for a significant incentive can undermine investor confidence, as it is challenging to assign a definitive value to the qualitative assessment. Therefore, the IDI should be supported by an assessment framework that informs rewards and establish the consumer value being delivered. We believe this could be addressed by different approaches, noting the challenge with robustly monetising innovation benefits.

2. **Limited Submission Opportunities**:

As currently proposed, the IDI is an entirely ex-post incentive, with innovative solutions only assessed and rewarded potentially years after they have been selected and implemented, with submission windows in 2028/29 and 2031/32. This delayed and retrospective approach increases risk and potentially weakens the incentive to take action, particularly in the early years of the price control. Early-stage innovative activities may not be progressed due to the risk, whereas if an annual incentive existed, these innovative solutions could be assessed the year after Project Assessments to which they relate have been submitted.

Our IDI Proposal

In its current form the IDI does not provide sufficient certainty to encourage innovation risk to be taken as there is limited clarity on the value the innovative activity would return, if at all. Therefore, we have proposed incentive design characteristics that we believe will enable the IDI to deliver its intended outcomes.

Scope: Within ETQ19 we acknowledge that the behaviours identified are broadly aligned with areas where networks can deliver meaningful consumer value however embedding sustainability and low carbon approaches into delivery should also be recognised. Avoid double funding. Risk that the late-stage design of this incentive has already reduced the envelope of projects where we can employ this incentive e.g. ASTI PAs due pre IDI guidance development.

Assessment: The IDI needs to have a robust process for assessing the innovation benefits to provide confidence in what value progressing early-stage innovative roll out across the design and delivery of projects which will drive value for consumers and continue to embed innovation is future price controls. Without this it would be challenging to implement this incentive within RIIO-T3.

Our preferred approach to reduce the subjectivity from the panel-based assessment Ofgem would need to provide clear guidance on the submission evidence required and the assessment process that will be undertaken by the panel. As a minimum, Ofgem should:

- Publish detailed guidance on the level of evidence required within the submission for the panel-based assessment to mitigate varying submissions across the TOs.
- Publish a detailed assessment framework with clear metrics, weightings, and examples of evidence required.
- Provide advance scoring criteria to ensure consistent evaluation across panel members
- Provide clear levels of reward linked to well defined outcomes and thresholds to provide certainty and remove assessment ambiguity.

This would be needed prior to implementing the IDI and we appreciate the tight timescales for achieving this before the first year of RIIO-T3.

An alternative assessment option would be using the quantification of the benefits to set the reward based on the future benefits the innovative solution would deliver under the IDI. We see the merit of this approach as the reward would be closely aligned to the potential consumer benefit it may deliver. However, as noted previously it is very challenging to fully monetise the benefits of innovation and we have concerns on the ability to robustly use the quantification as the basis of the incentive. We are open to working with Ofgem and the other TOs on developing a common quantitative approach, if possible.

Incentive Value: The rewards available under the incentive should be a value comparable to efficiency savings under the Totex Incentive Mechanism (TIM), for example 25%, to replicate the incentivisation available under the TIM. This reward would be capped at 10bps per annum. This level of incentivisation maintains contribution to broader incentive package whilst recognising the uncertainties associated with implementing and delivering against a new incentive.

The key change to the IDI design is to more directly link rewards to consumer value, making it less subjective. This change also gives TOs more confidence to pursue early innovation on late ex-ante projects. This is a complex incentive that will require significant development and discussion up to Final Determinations and we look forward to working with Ofgem and other TOs to finalise the incentive methodology

ETQ21. What are your views on how TOs could demonstrate 'consumer value' to justify rewards under the Innovative Delivery Incentive?

We agree that any reward should be tied to demonstrable consumer value. However, without an agreed framework for defining and evidencing that value, the current design creates too much ambiguity.

A key concern is the proposed £10 million materiality threshold. Ofgem proposes that only innovations or behaviours delivering at least £10 million of consumer value will be considered for reward. While we understand the intent, to ensure administrative efficiency and focus on impactful activities, we believe this threshold presents issues.

We agree that any reward should be tied to demonstrable consumer value. However, without an agreed framework for defining and evidencing that value, the current design creates too much ambiguity.

A key concern is the proposed £10 million materiality threshold. Ofgem proposes that only innovations or behaviours delivering at least £10 million of consumer value will be considered for reward. While we understand the intent, to ensure administrative efficiency and focus on impactful activities, we believe this threshold presents issues:

- It risks excluding smaller scale but still highly valuable innovations, which can deliver proportionally significant benefits (e.g. outage reductions, supply chain improvements, or better data management) below the £10m mark.
- It disadvantages smaller networks, whose projects may be lower in total cost but remain strategically important.
- It creates a binary reward mechanism, where innovations either meet the bar or receive nothing, potentially discouraging continuous improvement or cumulative innovation that delivers long-term system value.

Many forms of consumer benefit, such as improved network resilience, accelerated decarbonisation, or avoided future costs, may be qualitative or long-term, and therefore hard to quantify precisely. This reinforces the need for clear, fair, and practical methods for demonstrating these benefits.

If the IDI is to function effectively, Ofgem must:

- Clearly define what constitutes consumer value.

- Allow for aggregation of related improvements; and
- Provide examples of both financial and strategic value that would be eligible.

While we support the principle of encouraging innovation, efficiency, and collaboration in delivery, we do not support the IDI in its current form. Its ex-post design, lack of clarity on assessment criteria, and high materiality threshold introduce too much uncertainty and risk, reducing rather than increasing the likelihood of innovative behaviours.

We therefore do not view the IDI as a reliable or motivating incentive. We remain open to engaging with Ofgem to co-develop a more effective mechanism that supports innovation, encourages meaningful delivery behaviour, and provides networks with the confidence to invest and act.

ETQ22. Do you agree with our proposal to introduce the CSNP Co-ordination LO?

We do not support the proposals for the introduction of the CSNP coordination licence obligation.

The proposal lacks clarity regarding the scope of the obligation to support the development of the CSNP and how this requirement will be articulated in the licence, which consequently restricts the extent of feedback that can be provided. Ofgem have confirmed it will not duplicate industry codes, the CSNP Methodology or existing defined processes between NESO and TOs, but the proposal provides no indication of what will be included. It is therefore not clear why this is required or what will be measured given all roles for the TO are set out elsewhere so the appropriate route for monitoring compliance will be duplicated.

Information Sharing - Licence Obligation

We do not support the introduction of an information sharing licence obligation for the CSNP. NESO information sharing obligations on TO's are being introduced by Ofgem across multiple areas in a piecemeal and uncoordinated manner with separate governance, processes and data sharing portals/routes for each. These are all being introduced in addition to data sharing obligations already set out in the licence and industry codes creating avoidable complexity that will create regulatory risk and operational inefficiencies for both NESO and TOs.

If the licence obligation is introduced, it should be a stand-alone licence condition with a reciprocal obligation on NESO and separate guidance document setting out clearly roles and responsibilities for NESO/TOs and Ofgem. We recommend the format used in Special Condition 9.20: Tender Support Activities in Onshore Electricity Transmission with associated guidance as a starting point and expect that drafting of the licence condition will be done collaboratively with licence holders to ensure a workable process with robust governance established at the outset.

Any information sharing licence obligation must also be drafted to ensure it complies fully with the principles of use of associated documents[5] with appropriate change control.

We support Ofgem's proposals for the guidance document not to be unreasonable or unachievable, but note that the guidance must account for interactions with other licence conditions including Special Condition 9.14 Restriction on the use of certain information and Section 172 of the Energy Act 2023 Power to require information from regulated persons etc The guidance document for information sharing must also include clear timescales for requests for periods in which information can be requested with the

[5] Decision on principles of use for RIIO-2 Associated Documents | Ofgem

option for negotiation depending on the complexity of information requested, clearly set out the scope of information to be included in the guidance/under the obligation, a template for requests and a process for managing disputes.

We agree the monitoring and reporting of TO performance in relation to the information sharing obligation must facilitate a collaborative culture of improvement, this should include a regular Ofgem review of whether the licence obligation is required or whether TO/NESO collaboration can meet objectives in relation to the CSNP using more appropriate governance in industry codes and methodology documents. As we have noted above, we do not agree that there is a requirement for multiple information sharing obligations in the TO licence and Ofgem should seek to actively monitor whether there can be rationalisation of these obligations or whether industry codes and appropriate methodology documents are sufficient once new system planning processes are established.

Information sharing – Third parties

We expect that Ofgem will clearly define and establish the obligations of TOs regarding sharing information with third parties involved in the CSNP process and clarify whether third parties are partnering with TOs to develop options or submitting their own options into the CSNP. We suggest that Ofgem outline in the guidance document how third-party access to TO data will be managed, ensuring transparency, and appropriate safeguards. Any third-party submitting options to the CSNP must be held accountable to equivalent standards as TOs regarding sharing information with NESO.

The CSNP Methodology allows for a variety of potential project development and delivery stakeholder combinations, we urge Ofgem to collaborate with the NESO to establish the roles and responsibilities, especially regarding information sharing for each of the potential stakeholder collaborations that could arise.

NESO Monitoring and Reporting on TO Performance

The consultation document does not specify management details, but we expect NESO will be required to report to Ofgem following clear guidance that sets a baseline for measuring all TOs objectively. This guidance should ensure monitoring and reporting are proportionate, impose no unnecessary regulatory burden, and provide defined timescales.

Monitoring and reporting of TO performance under new obligations should promote a culture of improvement. Ofgem should regularly review whether the licence obligation remains necessary or if TO/NESO collaboration could achieve CSNP objectives through industry codes and methodology documents.

CSNP Methodology Change Control

There does not seem to be provision for making changes to the CSNP methodology. As the CSNP methodology and process is managed by the NESO, the NESO should be obligated to consult on changes, and this should include a specific obligation to consult with licence holders along with other interested parties. Strong change control requirements have been included in the NESO licence for the Connections Network Design Methodology, and we recommend this as a minimum standard that could be applied to the CSNP methodology.

ETQ23. What are your views on our consultation position for the LEI UIOLI in RIIO-ET3?

We disagree with Ofgem's proposed overall approach to the LEI UIOLI in RIIO-T3, whilst we appreciate the provision of the fund, we will be unable to use it to best effect unless the concerns raised during the consultation are addressed. In our view the LEI UIOLI should be expanded to include rainforests.

In Ofgem's SSMD, it was noted that the TOs highlighted difficulty in spending the LEI as currently proposed. For example, during RIIO-T2 we have undertaken extensive works in the National Parks and there is limited further work that can be delivered in these areas under the current mechanism. Below, we have reiterated our position on how this mechanism can be designed to ensure it can be utilised effectively and deliver value for consumers.

In previous consultation with the TOs, Ofgem noted their intent to expand the scope of the LEI UIOLI to include both the environmental and social benefits of the work undertaken through the allowance. It was also proposed to increase the scope of the fund to include rainforests.

We welcomed this proposal as this approach ensures that benefits can be broader across the North of Scotland and ensure equal access to funding opportunities for communities and landscapes impacted by Transmission infrastructure. In particular, the inclusion of rainforests will capture a large proportion of our network in Skye and Argyll and will allow us to deliver further work to minimise the visual impact of infrastructure in key protected landscapes. These landscapes are among some of the most visited in Scotland by tourists who are key users of these environments.

We would welcome further engagement on what the expected variety of metrics highlighted in the draft determinations would be if rainforests were included. As this expansion would be location-based only we do not anticipate this being a blocker to expanding the scope of the fund.

The approach outlined above will complement our proposed Species & Habitat UIOLI fund and enable us to deliver nature positive outcomes, that benefit local communities and deliver a clear value for consumers.

Table 7 below illustrates example activities fundable under each mechanism as currently proposed and demonstrates that there is no crossover between the actions taken under each mechanism.

Table 7 - ETQ23 Funding Mechanism vs Scope

Example activities (this list is not exhaustive)	LEI	S&H	Legislated Requirement
Tower Painting			
Undergrounding			
Screening planting to further screen infrastructure			
Landscaping to further screen infrastructure			
Building of osprey nests			
Removal of Invasive Species			
Connectivity improvements – e.g. green bridges, seed islands, stepping stones, hedgehog highways			
Microhabitats for invertebrates e.g. creation of pools, deadwood piles, exposed sand			
Bat boxes & bird boxes on third-party land			

Beach cleaning & litter picks		
Monitoring and surveying species populations e.g. bat surveys, invertebrate surveys, tracking of deer movement in landscapes		
Bespoke seed mixes for particularly affected animal groups		
Habitat creation or enhancement under the BNG metric		
Compensatory tree planting		
Peatland restoration		

ETQ24. What are your views on the proposed New Infrastructure Stakeholder Engagement Survey ODI-R, including areas of engagement measured, the proposed survey design, the stakeholders targeted, and the proposed reporting format?

We agree with the implementation of the New Infrastructure Survey; however, we do have points of clarification and potential amendments to make around the design parameters – in particular, the proposed league table to rank TOs' performance is unsuitable. We recognise the critical role of stakeholder engagement in shaping our operations and strategies and are keen to continually improve our engagement process, as demonstrated in our proposed amendments below.

1. **Areas of engagement measured:**
   We believe the proposed areas of engagement to be measured are appropriate. However, we would like to add to the proposed areas by extending the survey when needed. For example, if we know of specific projects or areas of engagement that may need more input, we would include them in the survey too.

2. **The proposed survey design:**
   In our view Ofgem should allow TOs to contribute to the decision-making process around the way the survey should be conducted. We are eager for our surveys to be as thorough as possible to achieve the best understanding of our stakeholders' positions. Historically, we have conducted wider online surveys, alongside follow-up telephone surveys, and focus groups, and would be supportive of a thorough method for the new survey structure. Ofgem and TOs should consider benefits and costs of each survey method when selecting a common method for all TOs to follow.

3. **The stakeholders targeted:**
   We will require further clarification around what is meant by "the stakeholders targeted". Point 3.263 provides a wide range of impacted stakeholders, thus a clarification on the stakeholders that should be targeted would be helpful. Also, we would like Ofgem to confirm whether TOs are expected to report on the stakeholder type targeted by each TO and whether, as a result, TOs should act by responding with related stakeholder-specific strategies.

4. **The proposed reporting format:**
   We do not agree with the proposal to rank TOs' performance in a league table. Ranking TOs in this way is unfair given the differing scales of work each TO undertakes in each licence area. Additionally, a league table of three will provide limited information for analysis. As an alternative

to the league table, we propose that Ofgem instead publish a more generalised summary of the TOs' results in their RIIO Annual Report. This summary should identify commonalities in results, shared learnings, and shared good practice.
To further ensure fairness, each TO must follow a standardised reporting framework.
Point 3.269 of the ET Annex advises this report will be published by 30 September each year. We would like to understand the justification for this timing, as publication dates tend to be March, in accordance with the financial calendar, and it would be logical to maintain consistency with this timing.

Finally, we propose that Ofgem and all TOs should collectively review the survey and process after one year and annually from then, to ensure it is functioning effectively, any improvements can be implemented, and learnings can be shared.

Managing uncertainty

Infrastructure fit for a low-cost transition to net zero

ETQ25. Do you agree with our proposal to retain the APM for RIIO-ET3 in its current form?

In part. We welcome the proposal to retain the APM for T3, but the scope and eligibility of the APM must be broadened to sufficiently de-risk delivery in T3 and beyond. Further, the APM mechanism should have sufficient agility to meet evolving supply chain constraints and continue delivering at pace, giving TOs the regulatory assurances and confidences to commit to and deliver substantial volumes of work.

While the APM will go some way to help mitigate the risks associated with reserving manufacturing capacity for long lead-time assets, it does not address wider supply chain risks including resource availability or market capacity. We therefore urge Ofgem to widen the APM scope:

- **Ofgem should introduce an equivalent to the ASTI ECF mechanism**. Based on its current design, there is a risk that the APM creates a funding gap for equipment and services that are not currently constrained, and for other critical activities for delivery such as early design and construction strategic land purchase. ECF-type activities are critical for allowing TOs to deliver at pace.
- **The APM should be more flexible in response to differing contracting and delivery approaches.** The design of the APM remains too focussed on the direct procurement of 'fungible' assets that can be 'transferred' between projects. This is not reflective of our current contracting approach, which has proven to be affective for the delivery of major projects, and limits our ability to utilise the mechanism and available allowances effectively to support delivery of our projects. Regulatory approval of a programme of work, coupled with access to allowances for a flexible set of activities, will enable us to undertake a strategic and targeted approach to securing the supply chain.
- **The 20% cap must be removed**. The APM must be able to release allowances in line with the financial commitments that TOs are required to make to secure the supply chain.

We urge Ofgem to add agility flexibility into the APM, to meet the volatile, evolving needs and constraints of both the supply chain and TOs, thereby maximising the value that can be delivered to consumers. The APM Re-opener only supports this in part. The current form of APM was developed at pace and is overly prescriptive, as well as restrictive on the list of equipment and services eligible for

funding. Ultimately, the APM is not agnostic to each TOs' supply chain, procurement delivery strategies, favouring certain approaches over others, potentially unfairly. The APM mechanism must be widened to be able to update the scope as government and policy development evolves, as well as in response to future publications including the CSNP, SSEP and RESP.

No supplementary question was raised on this issue following submission of the business plan.

ETQ26. Do you agree with our intended approach to PCF in RIIO-ET3?

We disagree with Ofgem's approach to Pre-Construction Funding (PCF) in RIIO-T3; PCF is critical for us to deliver both Load, Non-load and Non-operational Capex investments. An allocation of 2.5% of project capital expenditure is insufficient to fund development activities; not having sufficient funding will delay delivery and introduce undue risk.

Our analysis of our T3 schemes and historical projects shows that an average level of indirect spend on a large capital project is 19.74% of the projects total cost (excluding EEW – see ETQ27)[6]. This includes all pre-construction activity as well as all indirect construction activity. This is largely consistent with the expected 80% capex and 20% indirects ratio for capital projects. Our analysis has identified that PCF inclusive of contractor indirects, as a subset of total indirects, is [redacted] This is in line with our interpretation of Ofgem guidance and precedents set by regulatory reporting.

Our Business Plan submission

In our Business Plan we provided transparency and clarity on the level of PCF (comprising contractor indirects and internal PCF gate 0-3 costs) required to deliver our T3 portfolio, including expected Need Only schemes. We asked for £306m PCF to develop our Load, Non-load, Resilience and T4 development activities. This is summarised in Figure 5 below.

[redacted]

[6] The 19.74% is gate 0-5 indirect costs and does not include BSC. The recovery of BSC would be in addition. Please see ETQ61 for further detail.

Availability

Pre-construction activity is required on all infrastructure delivery projects, regardless of size or complexity. Pre-construction activity is best practice project management and adds significant value for consumers by mitigating the risk of unforeseen events, material scope changes, cost overruns, and delays to delivery. It is not in the interest of consumers for PCF costs to be unfunded.

PCF is required for Load, Non-Load and Non-Operational Capex investments. RIIO-T2 has set the precedent for this approach and no evidence has been provided to restrict development funding to only Load schemes. Our non-operational capex investments, operational campus and depots are fundamentally driven by the increase in load connected to our network. This is what drives the need for new facilities.

For Load Related Project we agree with Ofgem's position that if a project's needs case and early optioneering is approved in our RIIO-ET3 Final Determinations, the project will be eligible for funding through Track 1, which only assesses costs once they have reached appropriate cost and design maturity. Track 1 projects must be provided with PCF in our Final Determinations. This should apply to our complete submission including our CP2030 projects.

In line with guidance from Ofgem, we included our PCF allowances within the wider CAI/BSC allowances in our Business Plan for applicable baseline projects. We also included initial development funding for RIIO-T4 non-load projects. These investments are underpinned by load drivers as they are critical to enable the connection of renewable generation to the network, ultimately contributing to Clean Power 2030 and net zero targets. It is therefore vital for Ofgem to award PCF allowances for all baseline requests.

Scope

We broadly agree with the scope of PCF activities as set out in Ofgem's Draft Determinations and appreciate the supporting consultation with TOs to influence this proposal. Please see ETQ27 for our views on EEW. Full funding for land can be recovered through the Project Assessment, in the lead up to construction start.

Regulatory funding routes

We are concerned that Ofgem has not clearly set out how TOs are expected to recover full PCF costs including Contactor Indirects across the ex-ante, UIOLI and re-opener mechanisms. Ofgem must provide clear guidance and detail on how the elements of PCF, and its wider interaction with CAIs will be recovered. TOs need certainty that efficient development costs will be recovered.

Ofgem has provided multiple interactive funding routes for indirects and associated PCF

- Load Related Projects where Ofgem agrees the project's needs case and early optioneering in our RIIO-ET3 Final Determinations, will be provided with PCF in our Final Determinations.
- Post RIIO-ET3 Final Determinations for projects that have passed an eligibility assessment PCF will be provided via a licence change and the LRR reopener.
- In addition, Ofgem have developed a CAI UIOLI allowance proposed to cover future load projects between £25m and £150m, corresponding to 10% of the expected capex of eligible projects and is in addition to any PCF. This may be increased at Ofgem's discretion.
- Indirects related to reopener projects e.g. LRR and CSNP-F will also be recovered through Project Assessments.

The introduction of a CAI UIOLI allowance in addition to PCF has made assigning indirects to projects complex, introducing another new funding mechanism without clear definitions on spending categories. Table 8 below summarises our understanding of Ofgem's position within the DD across the funding mechanisms.

Table 8 - ETQ26 CAI Categories vs Mechanisms

	Internal Staff 0-3	Contractor Indirects	EEW	Delivery CAI 3-5
Volume Driver	Yes, in Unit rates at actual	Yes, in Unit rates	Yes, in Unit rates	Yes, in Unit rates
Load UIOLI (<£25m)	All in Allowance			
LRR (>£150m)	PCF	Unclear	Project Assessment	Project Assessment
LRR (£25m-£150m)	PCF	Unclear	Direct in PCF	CAI UIOLI
CSNP-F	PCF	Unclear	Project Assessment	Project Assessment
Non-Load	Yes in CAIs	Yes, in PAM	PAM	Yes, in CAIs
Property	No PCF provided	Project Assessment	Project Assessment	Project Assessment

To provide certainty of delivery we require ex-ante up front allowance for internal PCF and Contractor Indirects, this can be combined with reporting on a scheme-by-scheme basis for delivery. In our view Ofgem must expand the early funding enabled by PCF to include Contractor Indirects.

Value

A PCF allowance calculated on 2.5% of project capital expenditure is insufficient to fund development activities; not having sufficient funding will delay delivery and introduce undue risk. The proposed 2.5% value appears based on historical definitions of PCF, prior to the moving of contractor indirects into CAI/PCF, from Capex. This means using regulatory precedent/historical data would underfund TOs for contractor indirect activity within the PCF pot.

In our view, a lack of definitional clarity is prohibiting the establishment of PCF allowances. We think there are two broad options to resolve this issue.

- Option 1 – PCF pot that covers Internal PCF (Gate 0-3 internal staff) + Contractor Indirects. The remaining project indirects (Internal Staff gate 3-5) would be recovered through the CAI UIOLI or Project Assessments.
- Option 2 – PCF pot covers Internal PCF (Gate 0-3 internal staff). The remaining project indirects would be recovered through the CAI UIOLI or Project Assessments. A summary of the two options and mapping to the funding mechanisms is in Table 9 below:

Table 9 - ETQ26 [redacted]

Option 1. This option aligns with the RIGs definitions for very CAI for Project Management and Network Design & Engineering (and aligns with our Business Plan proposal) where contractor indirects are reported as CAI and PCF. This would require a much larger PCF pot than currently proposed by Ofgem – [redacted] The remaining indirects would need to be recovered through CAI UIOLI and Project Assessments, depending on the mechanism and level of cost.

Option 2. This option would require a lower PCF pot of c3%, and the remaining indirects would be recovered through a larger CAI UIOLI pot or at Project Assessment. This option does not align with our view of the RIGs where contractor indirects are reported as CAI/PCF.

Our preference is certainty in recovery of our PCF, as it is a key enabler for delivery. Therefore Option 1 is preferred. [redacted]

In the Draft Determinations Electricity Transmission Annex, Ofgem requested information from TOs to inform the expansion of the size of the PCF allowance beyond 2.5%. We have provided this information to Ofgem through our past engagement, evidencing the position set out above, and we are open to further engagement to help inform Ofgem's assessment.

Allowance Allocation

A project-by-project approach to PCF allocation will introduce significant regulatory burden due to the high-number of schemes set to progress though the Load expenditure package in RIIO-T3. This approach will ultimately impact project delivery and will put Ofgem's assessments on the critical path.

Ofgem previously proposed that PCF would be set on a portfolio basis as they considered that this approach will be crucial to provide TOs the ability to progress the projects at pace. It was noted that all stakeholders shared this view in response to this proposal.

Ofgem's subsequent change to this proposal was influenced by a high volume of Load projects lacking certainty. Our in-period PCF proposal aligns with our baseline PCF ask, which is underpinned by actual

pre-construction expenditure requirements for our baseline Load schemes and has been substantiated via EJPs and BPDT submissions. This demonstrates robust evidence to allocate PCF on a portfolio basis, in line with Ofgem's original policy intent.

Assessment

We do not agree with the use of PCDs to unlock PCF funding. TOs require flexibility to allocate funding and resources across our portfolio. The PCD structure is too rigid and disincentivises spending to accelerate project delivery. It also adds unnecessary regulatory burden, as clawback of allowances can be arranged through closeout, if projects are cancelled. We are committed to reporting progress of our PCF spending through the annual RRP but there should be no additional requirement for additional reporting through PCDs.

Ultimately, we need certainty of allowances in the development phase to continue to deliver at pace and avoid unnecessary delay, as a result of waiting for submissions or receiving planning consents before committing to further detailed development and design work.

Consumer Protection

Consumer protection is built into the price control and project assessment process, ensuring all project costs are subject to rigorous efficiency assessments which is reflected in allowance awards. If a project falls away, unspent allowances would be handed back or recovered from developer where appropriate, further enhancing consumer protection measures.

Summary

Our ask is therefore:

- Clarity on the scope of the PCF pot and interaction with the CAI UIOLI and Project Assessment funding routes
- The PCF pot approved up front ex-ante on a portfolio basis
- Appropriate value pot considering the full definition of PCF, including contractor indirects - we propose 11.74% (based on our preferred option 1).
- Each TO will track and report on a project-by-project basis through the annual regulatory reporting cycle
- A true up mechanism will be used at the end of the price control to adjust for actual PCF levels based on progression of schemes, with flexibility that the baseline allowance may increase/decrease depending on which scheme progress
- The PCF pot is expanded to include our Non-Load and Non-Op capex projects

ETQ27. Do you agree with our updated definition of EEW?

We broadly agree with Ofgem's updated definition of EEW and appreciate efforts to consult with the TOs to influence this proposal. We would highlight concerns regarding the lack of funding provided to recover allowances associated with these activities. [redacted] We note that EEW is effectively brought forward spend, rather than increased spend as this work would be required to deliver the project at some stage. Therefore, the benefits of providing EEW allowances are that it gives TOs certainty of allowances and encourages acceleration, providing programme and cost benefits for consumers.

We note that EEW is direct CAPEX spend, and we would ask Ofgem to consider the reporting of EEW separately to indirects within the RRP, and future BPDTs. There is the potential for confusion and misreporting if EEW is embedded within PCF, which has been defined as indirect activity. EEW allowance should therefore be split out from PCF allowance above to avoid confusion and misreporting during the

price control. We would propose a separate licence term is introduced for early enabling works to allow separate reporting against this term, rather than embedded within the PCF license term.

We also highlight that EEW is in addition to pre-construction spend, and we have split this out within our proposal for the PCF pot and CAI UIOLI pots. For more information on this proposal, please see our response to ETQ26 and ETQ58.

ETQ28. Do you agree with our proposed approach to PCF on tCSNP2 projects?

We are broadly satisfied with the proposed approach to PCF for tCSNP2 projects under RIIO-T3. We support Ofgem's proposal in paragraph 4.47 to address potential funding gaps for projects previously awarded development funding under RIIO-T2.

We agree in principle with the proposal to transfer projects from RIIO-T2 SpC 3.45 into the prevailing RIIO-T3 PCF licence condition. We encourage Ofgem to use this transfer as an opportunity to update forecast total project costs and request clarification on whether any baseline adjustments to the PCF allowance will be applied.

However, we do not support the introduction of a staged release of PCF for tCSNP2 projects in the RIIO-T3 price control period. We welcomed in ASTI the full release of PCF funding from the outset, which provided upfront uncertainty reduced unnecessary regulatory burden for both Transmission Owners and Ofgem. The current proposal reverts to a staged funding release and we are unclear on the rationale for this, and the mechanism through which allowances would be released.

Finally, we remain concerned about the level of PCF awarded. For further detail, please refer to our response in ETQ26 for further information.

ETQ29. Do you agree with our proposed scope, re-opener windows and materiality threshold for the Load Re-opener?

We largely agree with the proposals set out by Ofgem.

Scope:

- We support the introduction of a Load Re-opener to adjust our ex-ante allowance.
- We agree with the scope proposed by Ofgem.

Re-opener windows:

- We support the principle of two re-opener windows in April and October; however, this should only apply to the Project Assessment. When applying for needs case approval, we disagree that this stage should also be sought through either the April or October window. This creates an inflexible approach to the Load Re-opener framework. Once a project receives eligibility to apply and is defined as complex or high materiality, it should be able to seek need approval at any time during the price control. TOs should give sufficient notice ahead of any submission related to technical assessment.
- We strongly encourage Ofgem to speed up its assessment timelines to ensure that the critical path does not become the regulatory process, and to avoid delays to project delivery.
- We also encourage Ofgem to ensure any projects which meet NESO's Gate 2 criteria, as defined through the connections reform programme, to be automatically placed within Track 3.

Materiality Threshold:

- We would support the removal of the materiality threshold, to avoid inadvertently not providing a route to funding for a Load project. We understand that connections will be funded through the Volume Driver and specific Load projects as defined by Ofgem through the Load UIOLI, therefore, removal of the threshold would allow TOs a backstop route for projects that do not fall into these two mechanisms.
- We welcome the use of a COAE (Cost and Outputs Adjusting Event); however, we disagree with imitating the LOTI arrangements of a 20% threshold and believe a threshold of 5% would be more appropriate. This would allow us to ensure these projects are delivered at pace and protect TOs from significant cost over runs, in line with the proposals for ASTI.

ETQ30. Is it clear how the different Load Re-opener tracks operate, and do you agree with the rationale for introducing them?

We are concerned that the regulatory process proposed for the LRR mirrors the LOTI process in RIIO-T2, which led to delays to delivery of large transmission projects. This inflexibility led to the need to introduce ASTI and speed up regulatory decision-making. RIIO-T3 will see an unprecedented number of projects requiring delivery to achieve Clean Power 2030. Many of these projects will go through the Load Re-opener pathway, and it is critical that the re-opener reduces number of regulatory submissions required and reduces the number of decisions required by Ofgem. Regulatory review must be proportionate to the project's costs and complexity.

Eligibility Assessment (EA)

- We agree in principle with the introduction of the Eligibility Assessment. This will give Ofgem early sight of projects and allow acceleration of decision-making.
- However, we disagree with the timescales proposed for the EA decision. To limit delays to projects progressing through the Load Re-opener, we would expect a decision to be made within one month. As with our Clean Power supplementary decision, the Eligibility Letter will be a succinct document which we believe can be reviewed in a timely manner allowing us to progress projects at pace.
- The needs case for projects which are driven by connections should not require a needs case assessment as this has already been confirmed by the signing of a TOCA (Transmission Owner Connection Agreement). We also view that in instances where a TOCA exists, consumers are protected from the project falling away by the deposit paid by the connection customer. Connection-driven projects that are required to progress through the Load Re-opener should progress straight to project assessment and not require an eligibility letter.
- We disagree with the proposal in Chapter 3 of the ET Annex to also include Load Re-opener projects within the scope of the CSNP-F ODI-F. We believe that an ODI does make sense for projects which are strategic, such as ASTI. We are also unclear on how a Target Delivery Date for non-strategic projects would be funded through the LRR.

PASE

- We agree that there is a requirement for a framework which will decide which Load Re-opener track a project should progress through. It is critical that any framework facilitates the acceleration of decision-making and does not delay project progression.
- We believe that the design of the PASE framework should align with the Electricity Transmission Design Principles (ETDP) recommended by the Clean Power Commissioner. These principles will provide greater clarity on the type of asset to be used in different environment and outline the impact of transmission infrastructure on the environment and communities.

- It is, however, key that Ofgem take a pragmatic approach, and where a TO can demonstrate that there is a need to deviate from the principles that a project can still progress through the fast track.
- PASE/ETDP is a supplementary framework, however, does not and cannot provide a solution to real world project issues and on occasion may conflict between our other obligations and there may be times that deviating from the PASE/ETDP will result in greater consumer benefit.
- We disagree that all projects above £200m should be placed in Track 3. Ofgem should consider whether Track 2 should be used for these projects, where justified by TOs. This could include connections meeting the Gate 2 criteria or that the project is less complex/and or standard design as assessed through the PASE framework.
- Ultimately, we expect Ofgem to assess the evidence submitted by TOs and where variations are justified, the scheme is fast tracked.

Needs Case

- We also disagree that to apply for Needs Case approval it must be sought through any Load Re-opener window. This creates an inflexible approach which could stifle acceleration of projects critical to Clean Power 2030. It would provide TOs with greater flexibility if Needs Case approval can be submitted at any time during the price control.
- Decoupling the Needs Case Assessment from the conclusion of the planning process provides us with greater flexibility and will accelerate the process in comparison to RIIO-ET2 re-openers.
- Any projects which meet NESO's Gate 2 criteria should automatically be placed in Track 2 and bypass the full Needs Case assessment process to ensure accelerated delivery.
- We disagree with the proposal to assess the Needs Case assessment within four to six months. To ensure that projects are progressed at pace a decision on the Needs Case should be completed within three months.

Project Assessment

- We support the assessment of costs once they have become more certain as part of project development and progress towards construction.
- We encourage Ofgem to ensure cost is the focus of these assessments and not to revisit parts of the project which have already been assessed (e.g. engineering or procurement), unless required as a result of a material change to the project.
- We welcome Ofgem's flexible approach that planning consent does not need to be secured ahead of the needs case submission. This will give us greater flexibility and helps accelerate the process.
- Ofgem must ensure that swift assessment decisions are made. Based on the current proposal from Ofgem, three months to decide on eligibility letter, four to six months to decide on optioneering and six months on PA is too long. To avoid the critical path for these projects Ofgem must reduce the decision time on eligibility letter to two months, optioneering to three months and PA to four months.
- We would encourage Ofgem to provide clear guidance on its expected cost assessment process for LRR projects within the LRR guidance document.

ETQ31. Do you agree with the scope and materiality threshold for the Load UIOLI?

We agree with the scope of projects which can be utilised under the Load UIOLI pot. We welcome the inclusion of atypical connection projects within the proposed scope of the Load UIOLI, allowing projects which fall outside the volume driver tolerance range to gain funding without having to progress through the Load Re-opener framework which would increase regulatory burden for both parties.

We strongly disagree with the size of pot proposed for us via DDQ SSEN009. The removal of key Load projects, which do not fall within the Load Re-opener framework will create a funding gap. We requested a pot size of £200m, which covered the requested projects in the table below. Following the publication of the Draft Determinations, we were allocated a pot size of [redacted] This was raised as a query with Ofgem, we were then advised our pot was reduced [redacted] This would result in a critical funding gap for projects which do not fall into the Load Re-opener framework and are not connection-driven so cannot be funded via the Volume Driver.

We would welcome additional engagement with Ofgem to ensure our UIOLI pot is appropriately sized given our expected portfolio.

As part of our RIIO-T3 Business Plan we requested a load UIOLI pot of £200m. As per SQ SSE026, we provided additional justification for such a pot. It is not possible to be 100% certain of the schemes that will go through at this stage, therefore, we have provided estimates to help with appropriate sizing of the pot.

The table below sets out our view on an appropriately sized pot, based on the potential atypical connections projects likely to occur in RIIO-T3 which don't have an electrical uplift (MW or MVA) for example, and can't be delivered via the volume driver. We have included this list based on the current volume driver proposals and it is important that the Load UIOLI is reviewed, and allowances set following confirmation of the volume driver mechanism. Illustrated below in Table 10.

[redacted]

Scheme Reference	Scheme Name	Project Type	[redacted]
SHT20346A	Taynuilt (Sole Use)	Atypical connection project	[redacted]
SHT20629	Tealing 132kV Extension	Atypical connection project	[redacted]
SHT20302	Berryburn 275kV OHL Works	Atypical connection project	[redacted]
SHT20602	Shared Fyrish 132kV Connection	Atypical connection project	[redacted]
SHT20608	Knocknagael 275kV reserve bus section circuit breaker	Atypical connection project	[redacted]

Scheme Reference	Scheme Name	Project Type	[redacted]
SHT20279	Peterhead – Persley Tee 275kV	Atypical connection project	[redacted]
SHT20690	Hurlie 400kV – MSCDN	Atypical connection project	[redacted]
SHT20084	Cloiche	Atypical connection project	[redacted]
SHT20089	Clash Gour	Atypical connection project	[redacted]
SHT20500	PT001056 - Errochty - Clunie 132kV Reconductoring	Atypical connection project	[redacted]
SHT20606	Kergord - Gremista GSP 132kV Infrastructure	Atypical connection project	[redacted]
Multiple	4 ANM Projects • Shetland ANM Scheme • Western Isles ANM • Errochty Charlstone 132kv ANM • Creag Dhuibh Network Management Scheme Further details of individual projects can be found in T3BP-DD-030	TO identified requirements - ANM	[redacted]
SHT20305	South West Harmonic Filtering	Harmonic Filtering Equipment Requests	[redacted]
Multiple	15 DLR Projects Further details of individual projects can be found in T3BP-DD-031	Protection Equipment Protection	[redacted]
			[redacted]

In addition to this, we expect to deliver projects in the following categories during RIIO-T3. However, at this stage we do not have certainty on the exact requirements, as they will be directed by the NESO, or identified to maintain SQSS compliance. Illustrated in Table 11 below.

[redacted]

Flexing Load UIOLI

It is critical that during the price control Ofgem can amend the size of the UIOLI pot, to allow flexibility and manage uncertainty during the price control, should the pot be depleted. We encourage Ofgem to consult on a mechanism to amend the pot during the price control, through the licence groups.

Projects which should not be included:

We note that Ofgem has in DDQ response SSEN009 stated that 'Reinforced Autoclaved Aerated Concrete Remediation' (T3BP-EJP-023) was included in the Load UIOLI pot. We disagree that this should be included in the pot as it is not a Load project and does not meet the criteria. It has been included in Table 7.1 as a Non-Load project.

Total sizing of Load UIOLI pot

The total requested Load UIOLI pot size is therefore [redacted]

ETQ32. Do you agree with our proposed design of the generation and demand connections volume driver mechanisms?

No, we disagree. The current design proposals for the generation Volume Driver, and the demand volume driver does not apply to us. We have consistently maintained that a "pay-as-we-deliver" mechanism is the most effective approach for delivering connections at pace. The challenges associated with setting ex ante unit rates are significant, particularly given the diverse nature of our work and the substantial variation in project costs.

The assumption that underpins the Volume Driver - that projects are repeatable with similar scope and predictable costs – does not reflect the reality of our delivery landscape and is therefore fundamentally flawed. This position is clearly set out in our RIIO-T3 Business Plan (*page 71, Our Plan for the RIIO-T3 Period*).

Our general concerns with using a Volume Driver mechanism are:

- Non repeatable works: The scope and nature of our projects vary significantly, making the use of unit rates impractical.
- Large variation in project costs: Driven by factors such as access constraints and topography challenges.
- Limited Data: The unit rates are derived from almost exclusively forecast data, with minimal historical project data to support accurate unit rates.
- We have not connected demand projects, therefore we will not have a demand volume driver. The wider load framework needs to ensure we can fund these projects if they arise.

Putting aside our overarching issues with the use of a volume driver in RIIO-T3, we have reviewed Ofgem's proposal and our specific concerns with the proposed Volume Driver mechanism cover three key areas:

1. **Setting Unit Rates**: Ofgem's proposed unit rates are not appropriate, and the underlying data and modelling used has fundamental flaws and errors that need to be addressed.
2. **Identifying Atypical Projects**: Ofgem's approach of using 1.5 times the standard deviation to set the 'tramlines' for removing atypical projects from the Volume Driver is not appropriate and we give the level of risk associated with the atypical range.
3. **Dealing with Cost Variability & Risk**: The use of the stepped TIM for the Volume Driver as part of general Totex is not appropriate given the variability of allowances derived through the Volume Driver and the large risk this can create. We believe that an alternative approach is required to ensure that risk and rewards are known and bound.

We have provided further detail on these, with alternative proposals and will continue to work with Ofgem up to Final Determinations to ensure that there is a workable Volume Driver mechanism for RIIO-T3. We acknowledge that SSEN-T is an outlier within the connection delivery space, but this reflects the differences in the network configuration and topography. Adjustments to the mechanism, some of which may be bespoke, will be required to ensure it works for all TOs under the overall principals of a volume driver.

Setting Volume Driver Unit Rates - Data and Modelling

In the interest of collaboration, we have reviewed the volume driver approach and acknowledge that using single-rate volume drivers is more accurate than multi-variable models. We also agree that models should be based on individual TO rates and that the intercept should be excluded. However, we remain concerned about specific issues within the current model, particularly around misaligned cost mapping and data quality.

The dataset Ofgem used to derive unit rates is primarily made up of RIIO-T2 baseline schemes, with the addition of RIIO-T3 early development projects. The RIIO-T2 baseline schemes are not reflective of the current delivery landscape, and the RIIO-T3 projects were incorrectly mapped to substation costs due to the way they were entered into the BPDT submission (as a single line).

Furthermore, when compiling the dataset to be used within the model, Ofgem used the limited data in the Cost & Volumes tables from our BPDT. There is significant risk associated with this, as this data does not incorporate costs that should be inclusive in the Volume Driver unit rates, such as pre-construction funding.

Additionally, LVAC cable was incorrectly mapped to short run cable rather than substation costs, consequently driving down the short run cable unit rate. [redacted] which is unrealistic given inflation and other cost pressures, which should have led to an increase rather than a decrease. Also, the formula utilised by Ofgem to find overhead line volume incorrectly aggregates cable and earth wire lengths, also reducing the unit rates.

These issues result in inadequate unit costs, which ultimately lead to extreme under or over funding. We have raised these concerns during our ongoing engagement with Ofgem, including at bilateral. To support improvements, we have shared with Ofgem our proposed cost mapping, as well as providing a new dataset which is suitable for use within the model. This new dataset is explained further in the supplementary pack provided T3BP-DD-034. We have engaged with Ofgem to explain the methodology used within our new mapping and data.

Identifying Atypical Projects

Ofgem's current volume driver model and approach of using 1.5 times the standard deviation of the modelled cost is not appropriate for setting SSEN Transmission's atypical threshold. From a £m value +/- £38m delta between cost and allowances per project is an unacceptable level of risk, before other mechanisms (Load Re-opener) can be used to fund connection projects. We provide further detail within ETQ35 on this.

Dealing with Allowance Variability & Risk

Ofgem's proposals do not provide sufficient protection for consumers and TOs to deal with cost against allowance variability at a portfolio level. Allowances set under the volume driver for transmission connection projects will never be fully reflective of the costs, given the more diverse nature of transmission projects. Therefore, we believe that using the stepped TIM is inappropriate. We support a more targeted approach that reflects the allowance variability risk across the portfolio of connection projects that is not fully captured by the atypical process. We believe that a true up mechanism at the mid period and close out is needed. We provide further detail of this proposal as part of ETQ33.

For demand connections, we are keen to engage with Ofgem on how these projects will be funded through the Load UIOLI or Load Reopener if they materialise within RIIO-T3. This will ensure we have appropriate funding routes to deliver these potentially strategic demand connections. We provide further detail on our Volume Driver analysis and proposals within our supplementary Volume Driver Annex (T3BP-DD-034).

ETQ33. Do you agree with our proposal to apply the 'stepped TIM' to volume drivers as part of general totex?

No, we do not agree with its proposed application to the Volume Driver as part of general Totex.

We have concerns more generally with Ofgem's proposals to use the TIM as a risk management tool and have set this out within ETQ70. These concerns are amplified with the Volume Driver mechanism as the allowances provided will not be fully reflective, given the variation in the scope of the projects SSEN-T deliver. As the proposals currently stand within Ofgem's Draft Determinations, the Volume Driver rates currently proposed are too low and do not accurately reflect the cost of delivering these projects.

As well as poorly derived unit rates that are not reflective of the costs we incur, the atypical process and threshold are currently too broad (+/- £38m delta between cost and allowance) and we should not be expected to fund 25% of this potentially material overspend or benefit from a windfall gain – all driven by a calibration issue, and not through efficiency or inefficiency. We cannot agree to this risk.

Therefore, the TIM cannot be used as a shock absorber for a calibration issue with the Volume Driver mechanism as part of general Totex. To ensure that the Volume Driver mechanism sufficiently protects both consumers and TOs we believe that a Volume Driver specific true up mechanism is required. Our preferred approach is similar to the process within RIIO-ED2 Load Volume Driver. Illustrated in Table 12 below.

Therefore, we propose a mid-period and close out true-up in RIIO-T3 for where the portfolio delta between costs and allowances exceeds an agreed materiality threshold. This approach strikes the right balance of maintaining an incentive for driving efficiency, while protecting both consumers and TOs from cost risk which materially deviates from expected performance - largely driven by the limitations of the Volume Driver as an allowance setting mechanism for all projects.

Table 12 - ETQ33 Volume Driver True Ups

Area	Description
True Up Threshold	• Cost vs allowance delta is equal to/greater than 5% of forecast Volume Driver Portfolio Totex. • Within 5% the 25% TIM rate applies like stepped TIM approach.
Mid Period True up	• If cost vs allowance delta is greater than the 5% threshold then those costs are trued up. Volume Driver unit rates updated to account for changes.
Close Out True up	• If cost vs allowance delta is greater than the 5% threshold then those costs are trued up.

This will allow for adjustments based on actual project scope, ensuring we are not unduly penalised or rewarded due to unforeseen changes to the portfolio of projects delivered or significant cost variations from the ex-ante unit rates set at the beginning of RIIO-T3. If Ofgem maintain the view that unit rates under the Volume Driver are reflective, the alternative would be to set a narrow atypical threshold to remove the aggregate portfolio risk.

We acknowledge that this may be a more unique issue for our network area and not for the other TOs and this is largely driven by the variation of projects that we will have to deliver. We will continue to engage with Ofgem up to Final Determinations on the full scope of the Volume Driver. We provide further information within our Volume Driver Annex (T3BP-DD-034).

ETQ34. Do you agree with our proposed methodology for excluding atypical connection projects from the regression model?

No, we disagree.

We support the principle of removing outliers from the regression model to reduce variability. However, the proposed method for identifying outliers – defined as any project that sits beyond the range of 1.5 times the interquartile range from the first or third quartile for volume, cost, or unit cost – is not appropriate.

In the model shared with us, all but one of the outlier lower bounds is negative. This means that for a project to be classified as a lower outlier, the volume, cost, or unit cost would need to be negative. This is impossible. As a result, projects with significantly low cost, unit cost, or volume are being retained in the

dataset used for the regression model, despite being clear outliers. Their inclusion is materially skewing the regression results, hence driving down unit rates.

[redacted]

[redacted]

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

We therefore propose that the outlier methodology be revised to ensure both high and low outliers are appropriately excluded. More specifically, within our engagement with Ofgem, we have discussed an outlier approach which involves determining whether a project is an outlier on a bespoke case-by-case basis.

ETQ35. Do you agree with our proposal to use the Load Re-opener (above £25m) and Load UIOLI (below £25m) to fund projects that fall outside ±1.5 standard deviations from the regression model?

We agree with the overall approach Ofgem has proposed, but we strongly disagree with the threshold value of £25m and the use of 1.5 standard deviation to identify atypical outlier projects under the Volume Driver.

We have continually advocated for a higher threshold than the £25m Ofgem has proposed. We believe the regulatory burden associated with submitting Load Re-opener submissions for connection projects that are less complex and material is disproportionate. Instead, these projects should be funded through the Load UIOLI pot. We proposed a threshold of £50m within our Business Plan and are keen to continue to work with Ofgem on setting an appropriate threshold that balances risk and regulatory burden.

Furthermore, a key concern with Ofgem's proposals as set out in the Draft Determinations is that we would be unable to use the Load UIOLI as the Atypical Threshold set by the +/-1.5 standard deviation is greater than £25m. The projects used to derive [redacted] significantly in scope and cost, which has caused this value to be concerningly large. Additionally, the lack of a

maximum project cost within the Volume Driver further inflates this figure. This introduces significant risk exposure for both us and consumers, which we cannot agree to.

Moreover, [redacted] £25m threshold that determines whether projects are eligible for funding through the load reopener or the UIOLI mechanism[redacted] £25m threshold, it would, realistically, not be possible for projects to be funded through the UIOLI.

Given these concerns, we recommend removing the standard deviation element entirely. Instead, we propose implementing a fixed £ cap/collar threshold which is not derived from standard deviation.

To support this recommendation, we conducted [redacted] Additionally, it was now possible for schemes to be funded through the UIOLI mechanism. We would support using this threshold value instead.

[redacted]

ETQ36. Do you agree with our treatment of RIIO-ET3 Volume Driver crossover projects and our approach to allowance profiling?

We agree with the principle of including crossover projects within the RIIO-T3 Volume Driver framework, and we recognise this provides clarity and certainty of funding. However, we believe the use of the crossover funding provision should not be mandatory and the TO should be able to utilise the most appropriate funding mechanism across price controls.

[redacted]

Table 14 - ETQ36 T2 Schemes funded by T3 Volume Driver

[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

[redacted]	[redacted]	
[redacted]	[redacted]	
[redacted]	[redacted]	

Given this, for the treatment of RIIO-ET3 Volume Driver crossover projects, we request that we retain the flexibility to progress funding through the mechanisms within the next price control where appropriate. We agree with the proposed approach to allowance profiling of 25% per annum.

ETQ37. Do you agree with the proposed scope of the CSNP-F Re-opener?

We agree with the proposed scope of the CSNP-F Re-opener, to quickly designate projects from the CSNP as price control outputs. However, we do not agree that the PCF should be set at only 2.5% of forecast project Totex. For further detail on this please see ETQ26.

True up of actual PCF spend - Ofgem must confirm a route for TOs to recover spend above the allowance. We urge Ofgem to mirror the LRR policy and allow TOs to "true up" PCF spend above the nominal allowance as part of the PA. This must be clearly stated in the licence and guidance, as it is not formally captured within the LOTI and ASTI frameworks.

Joint Methodology on setting Recommended Delivery Dates - As noted in ETQ2, we urge NESO and Ofgem to collaboratively lead the development of a joint-TO methodology to ensure RDDs, and therefore TDDs, appropriately account for option maturity and deliverability.

Clarity on minimum level of project design - We seek confirmation from Ofgem on what constitutes a "suitable minimum level of project design" for a project to be designated a CSNP-F output. Neither NESO's draft CSNP methodology nor Ofgem currently provide a definition. We note that for tCSNP2 Development Track, PCDs have generally been set to align with NESO's level 2 maturity rating. However, the NHNC project is an exception due to its conceptual nature and energisation date in the late 2030s. We encourage Ofgem and NESO to consult on a definition, recognising that longer-term projects (e.g. NHNC) may be so far into the future that TOs can only develop them at a conceptual level.

Mechanisms to deal with uncertain costs - We request that Ofgem extend the mechanisms that CSNP-F outputs are eligible for, as outlined in our response to ETQ2.

Ofgem should also introduce a mechanism to support TOs in recovering costs that are not firm at the point of PA submission. We are keen to engage with Ofgem on whether an EGL2-type Uncertain Costs Re-opener would be optimal, or if a more suitable approach would involve submitting firm and uncertain ex ante allowances at PA, followed by an outturn cost review at project completion.

We note Ofgem's footnote referencing consideration of mechanisms for progressing tCSNP2 and tCSNP2 Refresh projects. We urge Ofgem to consult further on these proposals and to outline not only the criteria but also the process for designating "other NESO-led network plans" as CSNP-F outputs.

ETQ38. Do you have any views on our proposed design of the CSNP-F Re-opener?

We have several concerns with the proposed design of the CSNP-F. Ofgem need to consider the aggregate risk position when setting COAE events and the scale of the investments required via CSNP.

The COAE threshold of 10% is too high. The COAE threshold should mirror the ASTI COAE of 5% **at a minimum**. Applying a blanket 10% threshold to all CSNP-F projects is neither proportionate or appropriate, and, given the expected Totex range of projects expected from the CSNP process, could leave TOs wholly exposed to all but the most catastrophic financial scenarios.

Further, circumstances could occur where several individual COAE events materialise which fail to meet a 10% materiality threshold but cumulatively have a material impact on the project. The COAE threshold should be reflective of the value of the project, ensuring that our ability to finance the project is not put at risk as a result of an inflexible regulatory mechanism. We reference our Project Assessments which include proposals to Ofgem for a 2% COAE threshold on our Orkney and Argyll projects, alongside analysis of the different thresholds that Ofgem directed for projects determined in RIIO-T2 which clearly shows the COAE threshold has an inverse correlation with total project costs.

We believe that the LO for each CSNP-F project should be the RDD. The LOs should be set to mirror ASTI, namely +24 months from the NESO's required Recommended Delivery Date. As per our response to ETQ2 and ETQ37, we urge the NESO and Ofgem to collaboratively lead development of a joint-TO methodology to ensure ODDs, and therefore TDDs, properly take into account option maturity and deliverability at the appropriate time. This methodology must be agreed before RDDs can be used to set binding LOs.

We are satisfied with the proposal for two re-opener windows in April and October, given that there is the ability for Ofgem to trigger an additional window if required. We support this proposal as it will allow projects to progress between windows, rather than waiting on one window for the full submission of need, option and cost approval.

ETQ39. Managing uncertainty - Treatment of T2/T3 Crossover Projects at RIIO-ET2 Close Out

We welcome Ofgem's recognition of the need to address all valid funding requirements. This commitment is encouraging, but its success will depend on a pragmatic and clearly defined approach that delivers effective and efficient outcomes. To support this, we have proposed a set of guiding principles to help navigate projects that span the RIIO-T2/T3 period, tailored to the various scenarios in which this may arise. We look forward to further clarity from Ofgem on how this approach will be implemented. We would welcome a bilateral in the coming weeks, as we head towards Final Determinations to go through our response in detail.

Our key asks related to RIIO-T2 crossover are:

- A pragmatic approach from Ofgem to ensure efficient allowances are continued for all RIIO-T2 crossover schemes.
- Appropriate indirects and PCF funding for our crossover schemes.
- Clarity on funding routes for all crossover schemes.

Our response acknowledges both the areas where Ofgem has confirmed appropriate funding routes and those where gaps remain. Specifically, as noted below (in Section 5.2, table 5 within EJP067 and tab 'Cost Assessment BL' within T3BP-DD-024 - ETQ39 Dataset, rows 17 to 50: Non-Load related capex), we request confirmation from Ofgem regarding funding for RIIO-T2 indirect allowances. These allowances relate to indirect costs associated with baseline schemes that incur spend during the RIIO-T2 period.

PCDs

Where there is no change in scope for a PCD, we expect a simple re-profiling of existing RIIO-T2 allowances into the RIIO-T3 period. This reflects a continuation of previously approved funding, rather than a new funding request.

NARM

Similarly, we have proposed a comparable approach for NARM projects, most recently in our consultation response dated 9 May 2025, which addressed handbook changes following the full implementation of the Clearly Identifiable process. We believe the principle of continuity should apply broadly. Where project scope remains unchanged, the re-profiling existing allowances is appropriate.

We have encouraged Ofgem to adopt a pragmatic approach that allows for simple re-profiling of allowances between RIIO-T2 and RIIO-T3. However, under current proposals, these projects may be treated as under-deliveries through a resource-intensive processes as part of the RIIO-T2 close-out and without delivering any benefit to consumers.

This does not involve any change to the overall RIIO-T2 allowance. It simply reallocates a portion of the existing RIIO-T2 funding into the RIIO-T3 period. This proposal forms part of a broader toolkit designed to help Ofgem robustly assess TO delivery while ensuring continued funding for essential non-load works.

Application of RIIO-T3 re-openers

We welcome the introduction of RIIO-T3 re-openers, which will be needed to address any funding gaps where there has been a material change in project scope. However, we believe the scope of this function should be extended to NARM projects.

Please refer to our responses to ETQ44 and ETQ45. These outline the required application of the Non-Load Re-Opener, including its use for NARM projects.

Large Strategic Investments reopeners

Certain assessment mechanisms span multiple price control periods and should be treated accordingly. Projects under the MSIP, LOTI, and ASTI regimes, for example, should be ringfenced from the broader RIIO-T2 close-out process, as they are subject to their own established review frameworks.

Funding of indirects related to Crossover schemes

The CAI/BSC RIIO-T3 baseline modelling does not currently reflect our RIIO-T2 crossover schemes, as they have been excluded from our baseline MEAV. This means no indirects are currently being provided for schemes which are being re-cost assessed. Ofgem must correct this in the FD modelling and ensure appropriate indirects allowances are being provided.

Overall approach and conclusion

We have outlined our expectations for how various project scenarios should be treated when activities span both the RIIO-T2 and RIIO-T3 price control periods. We look forward to continued engagement with Ofgem on this matter, through the remainder of RIIO-T2 and into RIIO-T3. We believe the principles we have proposed offer a practical and balanced framework that can be applied effectively across a range of circumstances.

In summary:

- Projects with no material change in scope: Existing allowances should be reprofiled into the RIIO-T3 period as part of the RIIO-T2 closeout process.

- Projects approved in RIIO-T2 with spend allocated across both RIIO-T2 and RIIO-T3: Where Ofgem only provided the RIIO-T2 portion of the funding, the remaining RIIO-T3 allowance should be included in our RIIO-T3 settlement.
- Projects that have materially changed and been deferred into RIIO-T3: We request that Ofgem approve the full project costs spanning both RIIO-T2 and RIIO-T3, subject to the return of the original RIIO-T2 allowances.

Please also see the attached ETQ39 Datasheet and accompanying narrative below for how these principles will apply to the treatment of individual projects.

Project specific treatment and narrative of ETQ39 Datasheet

Within our original and updated CP2030 BPDT submission, we included T3BP-EJP067, Crossover expenditure between RIIO-T2 and RIIO-T3 price controls. Throughout this response will provide an updated response to ensure all crossover expenditure is accounted for through the various mechanisms set out by Ofgem.

We also include the ETQ39 Datasheet which provides disaggregation of total costs by direct, contractor indirect and Oncost (indirect) costs.

Crossover projects with No New Cost Assessment:

Section 4.1, table 1 within EJP067 and tab 'No Cost Assessment' within T3BP-DD-024, rows 7 to 35: Non-Direct Activities.

There is no change to these projects and trail spend would be encompassed in re-profiling through closeout.

Section 4.2, table 2 within EJP067 and tab 'No Cost Assessment' within T3BP-DD-024, rows 38 to 82: Non-Load Related Capex.

Currently there is no change on the proposal of treatment for these schemes, again these would be encompassed in re-profiling through closeout

Section 4.3, table 3 within EJP067 and tab 'No Cost Assessment' within T3BP-DD-024, rows 84 to 111: Load Related Capex.

For Load Crossover schemes, we would like to note the ECUP schemes (SHT2009 East Coast 200kv OHL Upgrade, SHT20010 B'HILL'K 275 Q-BOOST, SHT20256 East Coast Alyth, SHT20258 East Coast 400kv Fetteresso, and East Coast 400kv Kintore) will be subject to a date change and a further re-opener submission to apply for further allowances within the RIIO-T3 period. This is under licence condition 3.6.

SHT2008 Tealing PST (ECU2) will be subject to close out reprofiling.

All LOTI schemes within this table (row 99 to 11) will be subject to the LOTI re-opener submission in keeping with the principles set out above.

Crossover projects with No New Cost Assessment:

Non-Direct Activities:

Section 5.1, table 4 within EJP067 and tab 'Cost Assessment BL' within T3BP-DD-024, rows 8 to 16: Non-Direct Activities.

We have applied for allowances on these schemes Ex-ante, however Ofgem's position is to utilise a re-opener mechanism for means of recovery. We have received no funding for PCF or Indirects for these projects and assume that all RIIO-T2 and RIIO-T3 spend would be assessed through the relevant re-opener mechanism.

Non-Load related capex:

Section 5.2, table 5 within EJP067 and tab 'Cost Assessment BL' within T3BP-DD-024, rows 17to 50: Non-Load related capex.

For non-load schemes (NARM) with RIIO-T2 spend, we have applied for ex-ante RIIO-T3 allowances. Ofgem have encompassed the RIIO-T2 direct spend into year 1 of RIIO-T3, however this has not been applied to contractor indirects or CAI through regression. **We ask Ofgem to account for recovery of this indirect RIIO-T2 spend (£34.4m).**

Load Related Capex:

Section 5.3, table 6.1, 6.2 and 6.3 within EJP067 and tab 'Cost Assessment UM' within T3BP-DD-024.

T3 Uncertainty Mechanisms (UM):

Where we have proposed schemes as Load Related Re-opener and Volume Driver, we assume all (direct and indirect) crossover funding will be approved through the designated Uncertainty Mechanism.

Please see tab 'Cost Assessment UM' within T3BP-DD-024 - ETQ39 Dataset for full breakdown of UMs.

ETQ40. Do you have any views with our proposed approach to ITA project eligibility?

We broadly support the proposed approach to ITA project eligibility and appreciate Ofgem's acknowledgement that final decisions regarding eligibility and scope should be determined once greater clarity about the CSNP is available.

We recommend that, as a preliminary measure, **Ofgem articulates the desired outcomes for the ITA**. Establishing clear objectives will facilitate the development of a more targeted and effective eligibility framework.

It is our position that only select CSNP-F projects should qualify for Independent Technical Advisor (ITA) involvement, focusing on those where the ITA can deliver the greatest value, as determined by considering both cost and non-cost criteria such as Project Cost, Project Complexity, and the applicability of a CSNP-F Delivery ODI.

We intend to fully participate in the associated consultation process upon publication of the ITA Governance Document. Below, we present several key considerations which, in our view, should inform the development of proposals related to the ITA:

- We agree that ITA eligibility should be restricted to complex, high-materiality projects and endorse its application to load re-opener projects when appropriate. However, the ITA should not be mandated in all cases; its role must be to expedite Ofgem's decision-making rather than create unnecessary administrative burden. Further, we ask Ofgem to clarify the ITA's function within project assessments to prevent duplication and avoid introducing superfluous regulatory steps.
- We also propose that Ofgem engage in consultation with the relevant TO prior to appointing an ITA to any project. Such consultations, whether informal or formal, should enable the TO to understand Ofgem's rationale and provide an opportunity to address concerns without necessitating ITA involvement.
- Furthermore, if an ITA is appointed to a project facing challenges such as Delay Events or COAEs, it should not serve as an ex-post investigator. Instead, the ITA's role should be centred on offering assurance with respect to current and future decisions, thereby supporting successful delivery.
- Lastly, we do not consider it appropriate to alter the scope of the ITA via direction, particularly given the extent of access afforded to the ITA.

We would be pleased to engage on as a pilot project and discuss this with Ofgem as we approach Final Determinations

ETQ41. Do you have any views on the appropriate information sharing boundaries between the TO and an ITA, and how any conflicts could be managed?

We acknowledge the importance of robust governance around information sharing and conflict of interest management. TOs must be confident that all project data will be protected. We support Ofgem's proposal that ITA suppliers outline their systems and protocols for data security and conflict management during procurement.

Information sharing should be seamless and efficient, but not at the expense of confidentiality or security. We welcome further consultation on the flow of data, what information should be shared and how and suggest that TOs be involved in shaping these boundaries, including the setting of any criteria, to ensure practical and secure implementation. Ofgem should engage TOs in the development of both the Information Sharing Framework and the Conflict-of-Interest Mitigation Framework. Due to confidentiality and security considerations, implementing Data Best Practice with open data sharing is not appropriate in this context.

ETQ42. Do you agree with our proposed Carbon Compensation UIOLI to fund carbon offsetting in RIIO-ET3?

We agree with Ofgem's approach to fund carbon offsetting in RIIO-T3 in line with companies' long-term net zero targets. We have not requested allowances under the Carbon Compensation UIOLI fund as we intend to focus action in T3 on targets to reduce our Scope 1, 2, and 3 emissions and therefore do not require funding for offsetting.

ETQ43. Do you have any views on our proposal to reject these two environmental UMs?

We disagree with Ofgem's proposal to reject these environmental UMs, however we are open to utilising alternative regulatory mechanisms to recover the costs associated with investments that could not have been foreseen at the time of business plan submission. Below we set out our position on the Low Carbon Construction UIOLI and the Carbon Border Adjustment Mechanism (CBAM) reopener:

Low Carbon Construction UIOLI

We disagree with Ofgem's proposal to reject the Low Carbon Construction UIOLI fund. As set out in our Business Plan (RIIO-T3 Sustainability Strategy & Action Plan, Appendix 3, Action 3a), we proposed a £140m UIOLI fund to address the funding gap between conventional and low carbon construction materials. In response to Supplementary Question SSE047 (submitted April 2025), we provided a methodology and justification for portfolio-level carbon tracking and fund governance and highlighted connection with our existing goals on science-based targets and the PAS2080 carbon management standard.

Ofgem's position risks undermining RIIO-T3 carbon reduction goals, as many commercially available low carbon solutions fall outside existing funding routes. The proposed UIOLI fund would provide a flexible, ring-fenced mechanism capable of deploying these solutions at scale. This would support Scope 3 reductions (our largest emissions source) and align with Ofgem's Business Plan Guidance on embodied carbon baselining, target setting, and supply chain collaboration.

We do not see innovation funding routes as a viable way to fund low carbon construction for the following reasons:

- **NIA** is limited to innovation in development. Deployment of existing materials is not eligible, and allowances are capped, based on proportionate network growth.
- **SIF** excludes commercially available solutions and offers no flexibility in project timelines.
- **Innovation Deployment Fund** is a proposed £50m competitive pot across all TOs. This is unlikely to be sufficient to meet our decarbonisation goals.

We recognise Ofgem's proposal that as low carbon materials become increasingly viable, they can be incorporated into project assessments. For this approach to be workable, we would seek upfront agreement on a governance framework that ensures consumer value, derisks our investments, and provides us and Ofgem with certainty over both cost and carbon savings.

We propose that such a governance framework would apply to all proposed low carbon construction solutions. This would include the following:

1. A technical readiness assessment in collaboration with our supply chain, ensuring solutions are market-ready and do not compromise project delivery.
2. A consumer value test, demonstrated by applying the UK Government's Green Book central scenario for carbon valuation. Taking account of inflation across the RIIO-T3 period, we would propose an upper limit of £274/tCO_2e, ensuring cost-effective carbon abatement.
3. Evaluation of sustainability impacts to avoid trade-offs with other environmental goals (e.g. managing trade-offs between the carbon reduction potential and environmental impacts of HVO compared with diesel).

Initial modelling suggests that deployment of low carbon concrete, green steel, and HVO could reduce capital carbon by 12% for a cost uplift of <0.3% over RIIO-T3. To meet our Paris-aligned goal of reducing these emissions by 35% over this period, we would need to deploy *additional* low carbon options which are currently more challenging to cost. Applying the Green Book cost of carbon as outlined above, to meet our target whilst delivering consumer value, we anticipate a total uplift in project costs of at least 0.7%.

Noting the above requirements to fund low carbon construction materials for in-period investments, we would highlight that a streamlined UIOLI pot for ex-ante investments remains critical to deliver low carbon materials at pace. Not having a mechanism to deploy these materials will result in potentially defaulting to business-as-usual practices and opportunities to reduce embodied carbon will not be fulfilled. We anticipate a pot of £14m being appropriate to fund the implementation of low carbon construction materials for our baseline schemes. The pot size is based upon 1% of ex-ante expenditure across our non-load and resilience portfolio. This has been informed by known cost uplifts, industry average cost uplifts and the application of the non-traded central carbon price, as recommended by the Green Book for use in policy appraisal.

CBAM Reopener

We appreciate Ofgem's recognition of the uncertainty associated with the impact of CBAM legislation on the TOs; however, we do not agree with Ofgem's proposal that TOs can employ the Net Zero Reopener due to concerns with scope and applicability of this mechanism.

While we appreciate Ofgem's intent to simplify and streamline the RIIO-T3 UM suite by proposing the Net Zero Reopener as a route to recover costs here, it is our understanding that the Net Zero Reopener is a mechanism to reopen costs where PCDs have been defined. Therefore, it would not be appropriate in the context of CBAM costs. For this reason, we propose that CBAM needs a new and distinct mechanism to recover the associated cost uplifts.

We would highlight that the Net Zero Reopener has not been included for consultation as part of Ofgem's Draft Determinations, therefore we set out our position on this mechanism below.

Net Zero Reopener

Historically, we have faced challenges in utilising the Net Zero Reopener to its full extent due to lack of upfront certainty in approved scope. We generally support the functionality of this reopener; however, the scope of the mechanism is unclear and requires clarification. If Ofgem determine that the Net Zero reopener is an appropriate route for CBAM or BNG costs (see our response to SHETQ10), then the scope of the reopener needs to be reassessed to ensure it functions as an effective route to recover these costs. We do remain open to exploring alternative mechanisms to CBAM and BNG, providing Ofgem offers a high degree of certainty and clear indication that the projects will qualify under the scope.

Additionally, in line with Ofgem's shift to using RoRE to value the BPI and ODIs, we believe that the materiality threshold for the Net Zero Reopener should be set at 0.1% of RoRE, which in monetary value is £10m. This is a more appropriate threshold for the projects which will be using the Net Zero mechanism than Ofgem's proposed threshold of 0.5% annual average ex-ante base revenue, which is disproportionately high. This point is further explained in our response to OVQ13.

Secure and resilient supplies

ETQ44. Do you agree with our proposal to introduce a Non-Load Reopener to address funding gaps in shared-driver projects where the load-related need no longer exists, but an asset health requirement remains?

We agree with the introduction of the proposal where there are asset health requirements; however, the intended scope is too limited. The triggers should be:

- New or over delivery of non-load projects for which there is no provision within the current definition and operation of the NARM mechanism, including non-lead asset replacement, and type fault driven works (including SF6 replacement).
- Shared driver projects where the load driver is paused or falls away.
- Adjustments for RIIO-T2/T3 cross over and RIIO-T2 close out.
- Cost adjustment mechanism: Addressing material cost changes driven by volatility through a cost adjustment of allowances at our Gate 3 stage (aligned with the principles of the Load Related Reopener) see our response to ETQ50.

We have a number of load projects with underlying non-load drivers. If our strategic load driven network investments were to be deferred or paused, we would still be required to undertake non-load driven investment within the RIIO-T3 period to ensure we continue to operate and maintain a safe and reliable network. NARM unit costs do not sufficiently reflect the value of these works, the Clearly Identifiable Under or Over Delivery mechanism is not appropriate given the complexity and cost of the projects.

Therefore, a broader scope for the non-load reopener is required to cover instances where the load driver is paused or falls away. For example, our East Coast 275kV project (T3BP-EJP-047) where due to degrading asset condition and assets operating beyond their recommended industry mean asset service life, a clear need has been identified for network investment within the RIIO-T3 period. Alternatively, in the case of type faults where there is currently no proposed mechanism to recover costs associated with portfolio level repairs, refurbishments or replacements relating to SF6 type faults.

To increase the effectiveness of this mechanism, we propose Ofgem have a toolbox of functions that can assist in finding the most appropriate funding solution.

We are seeking confirmation from Ofgem that pragmatism will be exercised when assessing projects at RIIO-T2 Close Out. TOs should not have a full allowance clawed back where projects are delayed for reasons outside of a TO's control, but a full NARM output has been delivered. Otherwise, Ofgem should look to re-profile existing RIIO-T2 allowances to the actual delivery date in RIIO-T3. Alternatively, we must be able to manage RIIO-T2 Close Out as a part of this reopener.

ETQ45. Do you agree with our proposed design of the non-load Re-opener?

No, we do not agree with the proposed design of the Non-Load Reopener nor the principle that delayed projects spanning RIIO-ET2 and RIIO-ET3 do not require their own re-opener. This position is too limited. We believe that removing relevant projects from the non-load Re-opener removes Ofgem's potential to act flexibly when finding solutions.

Our T3 Business Plan confirms our intention that this reopener should mirror the Load Related Reopener, to address non-load driven activities that emerge in-period. We also intended this would adjust project costs and outputs for NARM projects, where the NARM mechanism does not adequately fund the projects, or delayed projects which span price controls. This provides funding for urgent operational requirements that cannot be delayed until the next price control.

There are several factors outside of our control that will challenge delivery schedules. We require Ofgem to adopt a pragmatic approach in relation to delayed projects and would request further clarification of how the pragmatism will be realised.

There is currently a gap where we cannot access funding, should we become aware of an issue with a non-NARM asset. We have provided examples of where we have had to make non-NARM asset interventions, which could not reasonably have been foreseen, during RIIO-T2.

Without such a mechanism we are forced to choose between spending at risk where we have no allowances or waiting until the next price control, relying on our assets to function normally in the meantime. With the increasing importance, relevance, and presence of network resilience in government policy and current events, we strongly seek the ability to make the correct asset management decisions to allow us to protect the safety, security, and reliability of the network. The existing NARM and regulations do not allow for flexibility, operating on fixed cycles with limited movement in inputs and outputs.

<u>The solution:</u>

The Non-Load Reopener should provide a route for the funding of intervening on non-NARM assets. To reduce administrative burden, we propose a mechanistic PCD with pre-approved unit rates for the non-NARM asset categories which we believe are most likely to require intervention.

We believe that the reopener should make up part of a 'toolkit' to be used by Ofgem to assist in making informed and pragmatic decisions. Particularly for projects spanning price control periods, there is a requirement for there to be a pragmatic approach whether this is a reprofiling of allowances (simply taking the sum from one period and applying it to another period) or having a non-load re-opener, where a claw back of allowances then requires a claim for delivering the remained of project work.

We have been seeking, from Ofgem, clearer guidance for how the NARM mechanism would handle these scenarios for a significant amount of time. At present it is not clear how NARM would work in these situations and in the absence of this clarity a re-opener mechanism that covers these projects is required. Should this guidance be improved, then the need for this reopener will reduce.

For materiality, we propose, in line with Ofgem's shift to using RoRE to value the BPI and ODIs, that the materiality threshold should instead be set at 0.1% (£10m in monetary value), not 0.5% annual ex ante base revenue. This issue is further addressed in our response to OVQ13.

Cost of service

ETQ46. Do you agree with our proposed approach to load and non-load capex assessment, i.e. the combination of unit cost benchmarking and engineering review? How can the use of expert assessment be further improved?

We broadly agree with Ofgem's approach to Load and Non-Load Capex cost assessment.

Transmission projects are not procured or executed at an individual asset level, and are instead delivered at a scheme level – they are complex, bespoke construction projects with unique factors which may impact on the level of cost, however we broadly agree with the adjustments to ensure benchmarking is conducted on an asset level and bespoke elements (e.g. civils/indirects) are removed and assessed separately. Ofgem must however be cognizant of the potential flaws in the data sets produced by TOs due to inconsistencies in cost attribution methodologies. This may lead to differences in the underlying asset cost and may lead to unfair benchmarking (e.g. comparing apples and pears).

We do not know how each respective TO has estimated its assets costs and we would strongly encourage Ofgem to engage further with each TO to understand the differences between cost estimates, sources of cost estimates and any cost allocation methodologies which may lead to inappropriate benchmarking. It is not clear to us that Ofgem has a good understanding of these processes and has taken it into account when conducting its benchmarking. If differences are known, normalisations should be undertaken to correct the data before benchmarking.

We are supportive of engineering review as part of the assessment of CAPEX costs please, see our response to ETQ67 and SHETQ11 for our detailed response on Ofgem's RIIO-3 assessment.

It is unclear to us how much Ofgem has relied on qualitative review of costs within the PAM, but we would encourage Ofgem to focus its assessment on asset types that look outside of expected unit cost levels. Where supplementary information is provided to justify costs, e.g. project-specific technical information, market tender information or additional justification, this should be accepted and allowed for within the PAM.

Expert review is also a useful tool for Ofgem to draw upon. We think this approach is valuable in assessing potential outlier projects to take more qualitative information into account and to give a more holistic view of projects. We would have valued more engagement with Ofgem's engineering and cost teams on areas of concern following business plan submission to justify and provide additional qualitative evidence of costs prior to draft determinations. We would have welcomed bilateral workshops to work through our submission with Ofgem.

In balance we view that an engineering assessment of project needs case followed by unit cost benchmarking and supplemented by qualitative assessment of costs and outliers is an appropriate approach to setting baseline allowances for the RIIO-ET3 price control.

ETQ47. Do you agree with our approach for unit cost benchmarks? Do you have any views on how the unit cost benchmarking methodology can be improved?

Overall, we agree with Ofgem's approach to unit cost benchmarking, however we have concerns with specific areas of Ofgem's methodology, as well as concerns around the data used for benchmarking.

We agree with Ofgem's approach of using a lighter touch approach to cost areas totalling £3m or less and use of greater scrutiny with costs exceeding £3m. We would welcome more engagement with Ofgem on some of these higher cost items. For these we view that Ofgem should take into account more project-specific information, and it would be valuable if TOs had the ability to flag projects as potential outliers and provide additional technical information as appropriate.

We have concerns with the use of cross-TO benchmarking as cost attribution is likely inconsistent between TOs. The Ofgem Asset Possibilities list is broad, but it cannot take into every possible area of cost within a project, and additionally different contractors are inconsistent with how they attribute costs in invoices. Each TO will need to make a set of assumptions when attributing costs to asset categories, and these assumptions will vary significantly by TO.

Ofgem should develop an exclusion process for atypical projects. In our view the asset category costs include three atypical projects that should be excluded from any assessment on a comparative basis due to their context and circumstances being atypical, as a result their associated costs cannot reasonably be subject to any comparison. We have provided detail on atypical projects in our non-load errata paper (T3BP-DD-012 Non-Load Errata) for the below:

> Peterhead Circuit Breaker Replacement – SHNLT2163. This is a unique project where costs are driven by the complexities of indoor AIS equipment and the associated civil works. The circuit breakers should be considered as pass through items in the PAM model.
>
> Foyers Power Station – SHT200698. This arrangement requires specialised 275kV(283kV)/18kV hydro generation transformers. Such transformers are more expensive than conventional 275kV/132kV or 275kV/33kV units. The transformers should be considered as pass-through items in the PAM model.
>
> Whistlefield Dunoon – SHNLT202. Costs are driven by topology and the need to maintain required clearances. The steep terrain will require installation of larger proportion of tension towers and fittings vs suspension towers and fittings that would normally be required for a typical OHL project with flatter terrain. Tension (strain) towers and fittings are more expensive than those of the suspension design. The fittings and towers associated with this OHL should be considered as pass through in the PAM model.
>
> Spares – EJP-038. Ofgem has used the PAM to assess our Strategic Spares costs for RIIO-ET3. The costs associated with purchasing, transporting and storing our spares have been compiled as a separate exercise from the Cost and Volume data submitted in tabs 6.1 and 7.1 of the RIIO-ET3 BPDTs. The costs associated with spare transformers should be assessed separately from the PAM and should consider factors such as the need to procure like for like transformers from specific suppliers, the unique specifications for certain models and most importantly the increase in supply chain costs for transformers over the course of the last few years.

Each of these projects is unsuitable for inclusion in any general assessment of asset category costs on a comparative basis. **Ofgem should account for these factors and we request that the allowance cuts derived from the PAM are reversed as set out in our non-load errata paper.**

ETQ48. Do you agree with our proposal to roll-up unit cost benchmarks and set the benchmarks at the scheme level?

We agree with Ofgem's approach to rolling up unit cost benchmarks and setting benchmarks at the scheme level. This approach mitigates some of the concerns we have previously raised around creating "Frankenstein projects" and allows for a more holistic view of overall costs, factoring in the bespoke nature of Transmission projects.

ETQ49. Do you agree with our continued use of the PAM? How can this be further improved?

We agree with Ofgem's continued use of the PAM. Although we have some concerns the Costs and Volumes format and PAM model itself (detailed below), in terms of application to our T3 submission we view the PAM produces an acceptable outcome and makes best use of the data gathering exercise required for the RIIO-ET2 RRP and RIIO-ET3 BPDTs. We have some suggestions for Ofgem in terms of improvements to the PAM:

- Ofgem should undertake a full review of the data flow through the PAM to ensure it follows a logical process and does not contain redundancies.
- The asset unit rates are hardcoded and often do not align with the figures in the unit cost model – the derivation of these figures should be traceable within the PAM to ensure transparency and consistency.
- It should also be clarified whether adjustments were made to rates following outlier exclusions.
- Usability of the model would be significantly improved by providing a summary tab that clearly outlines line-by-line adjustments per project and asset to be able to reconcile adjustments against the final figures without having to follow logic through multiple sections of the model. The current Primary Output tab lacks clarity on the specific adjustments made for each scheme.

We disagree with Ofgem's approach to assessing Spares costs through the PAM – the process of procuring spare equipment, the logistics of transporting and storing it in warehouses/depots and the ongoing costs of maintaining and cataloguing this equipment is not directly comparable with installing equipment on the network. These assets also have to be like-for-like replacements procured from the same supplier so cannot be competitively tendered. If spares were sourced from alternative suppliers there would be additional installation costs to incorporate it into the existing site. These costs should be assessed separately from Load and Non-Load projects. We also note that in its BPI review summary Ofgem gave the following view on our Spares submission: "Comprehensive cost evidence and optioneering and volumes justified. Unit cost criterion not applicable." - this appears to contradict Ofgem's use of unit cost assessment for spares within the PAM.

Additionally, Ofgem has included the Uncertain Costs category in the PAM yet these figures have not been assessed, and no associated funding has been provided. Ofgem should either expand the PAM to include these costs or assess them separately.

We would welcome consistency between price control submissions, regulatory reporting and uncertainty mechanisms, and continued utilisation of the Ofgem Asset Possibilities breakdown and the PAM would facilitate this.

In our view the PAM could be applied to smaller scale reopener submissions which are comparable to Load and Non-Load dataset captured in the Cost and Volumes tables during the RIIO-3 period in order to standardise the submission format and assessment process. This will allow for this approach to be continually improved upon for future price control settlements, would lead to lower overall regulatory burden and would enable more timely assessment of company submissions.

ETQ50. Do you agree with our proposed approach for setting the R&C allowance? If not, why? Please outline any challenges that you think might be present with our proposals on the R&C allowance and the interplay with the TIM.

We do not agree with Ofgem's proposed approach for setting the Risk & Contingency (R&C) allowance. We ask that the basis for Ofgem's proposed R&C allowance reduction is thoroughly reviewed to take

account of current market dynamics, our cost estimation methodologies and leading practice guidance for the inclusion of uncertainty and risk allowances, and in doing so reinstate in full our RIIO-ET3 Business Plan R&C allowance. Our R&C allowance (or RPEs) do not cover macroeconomics factors where Arcadis has forecast the exposure range at £50m-£380m. In our opinion Ofgem should accept our proposed reopener for macroeconomic factors due to financial exposure beyond both R&C allowances and RPE.

Ofgem's proposed intervention to reduce R&C allowances against those established in RIIO-ET2 are inconsistent with market developments regarding the procurement of equipment and construction services. Our expert third-party commission aligns with this principle and would fully expect the outcome of final determinations to increase R&C allowances for the RIIO-T3 period beyond those applied during RIIO-ET2.

Arcadis (T3BP-DD-011 - ETQ50 Arcadis Risk & Contingency Review for SSEN Transmission) have confirmed that the uplift percentages applied for varying Estimate Classes (calculating a RIIO-ET3 R&C [redacted]% of Direct Costs) aligns with best practice guidance from national and international cost estimation bodies. With respect to process application, Arcadis confirmed that our R&C methodology has been implemented according to policy. No evidence of double-counting risk allowances was identified during this review.

Reducing R&C allowance to 5% is inconsistent with cost estimation best practice and does not account for T3 Project Maturity and Market Conditions. We ask that the basis for Ofgem's proposed R&C allowance reduction is thoroughly reviewed to take account of current market dynamics, our cost estimate methodologies and leading practice guidance for the inclusion of uncertainty and risk allowances, and in doing so reinstate in full our RIIO-ET3 Business Plan R&C allowance.

Adopting RIIO-ET2 R&C as an established baseline

We consider the established R&C position for the RIIO-ET2 period is the most appropriate baseline for setting RIIO-ET3. For the RIIO-ET2 period, the R&C at [redacted]% was applied to the total project cost net of risk. The [redacted]% covered Construction Risks, therefore no Development Risk was included due to project maturity. The R&C was derived through analysis from a portfolio of projects delivered during RIIO-T1 and used to determine an appropriate contingency allowance for the RIIO-ET2 schemes. We analysed the outturn costs of 42 projects to understand the R&C costs incurred. Our expert third-party review included insights from a recent publication that confirmed risk uplifts of total project costs of between 9.2-10.0% applied early in the RIIO-T2 period. This should support using RIIO-ET2 established R&C allowance as the baseline.

Market dynamics and project maturity require an increased R&C allowance to deliver RIIO-ET3

As part of our RIIO-ET3 Business Plan our R&C allowance has increased from [redacted]% to [redacted]%. There are several factors behind this uplift:

Factor 1: Market dynamics – We have increased the established [redacted]% Construction Risk to [redacted]% due to market dynamics. Our expert third party review corroborates that there is clear evidence that suppliers and contractors are increasingly unwilling to accept key project delivery risks in the current market, such as ground and weather risk. As such it has been necessary for TOs to take responsibility for these risks, effectively increasing risk exposures. Through analysis of a small sample of our total portfolio of projects that are in flight during the RIIO-ET2 period we have provided examples of contract risks, and the forward-looking level of risk expected during the T3 period. This analysis was provided in response to Supplementary Question 155.

Factor 2: Project maturity. Our RIIO-ET3 baseline projects are generally at an earlier development stage than those submitted for RIIO-ET2. Our approach to determining the level of R&C uplift combines Development Risk with Construction Risk according to each project's stage of development and

associated Estimate Class. Development Risk only applies to Class 0 and 1 estimate and a flat rate Construction Risk uplift of [redacted]% is applied for Class 0, 1 and 2 estimates. Arcadis regards this differentiated combination of Development Risk and Construction Risk across our portfolio of projects to be a pragmatic and reasonable approach.

Factor 3: Differing application methods. R&C in RIIO-ET2 was applied to total project cost net of risk. This methodology has since changed where Ofgem determine the R&C as a percentage of Direct Costs. The change in methodology calculates a lower R&C cost for the same R&C percentage which would mean for an equivalent R&C cost outcome as ET2 we would require a larger R&C percentage.

In general, Arcadis has concluded that the R&C uplift factors applied by us are realistic and lower than equivalent values observed in other sectors. This gives us the confidence we are seeking an efficient and reasonable R&C allowance.

Adverse consequence of setting artificially low project budgets

An adequate R&C allowance is essential to manage and mitigate the increasing risks associated with capital programme delivery, especially given the pace, scale and complexity investment, and geographic challenges of our RIIO-T3 programme in the north of Scotland. A reduced R&C allowance will expose us to disproportionate downside risk against delivery to programme and budget and jeopardise the successful achievement of RIIO-T3 objectives - including net zero and the adverse impact to consumers.

Interface with other regulatory mechanisms

We fundamentally disagree with Ofgem's proposal that R&C for projects should be managed by the Totex Incentive Mechanism (TIM). The R&C allowance should continue to be determined independently of the TIM. Such incentive mechanisms within the regulatory settlement have been developed to encourage efficiency and should not be used to adjust input assumptions for investment plan forecasting and therefore should not justify a reduction in R&C allowances.

Equally and whilst acknowledging that the RIIO-ET3 framework introduces mechanisms intended to de-risk elements of procurement and construction (e.g. APM), we do not agree that this justifies a reduction in the R&C allowance relative to RIIO-ET2. During RIIO-ET2, the supply chain operated in a relatively stable environment and was able to price risk efficiently, often absorbing it within contract structures. However, this is no longer the case. As outlined within our Supply Chain Resilience Strategy, the current market is characterised by constrained capacity, inflationary pressures, and global competition for critical resources.

Suppliers are increasingly unable—or unwilling—to accept a broad range of risks within construction contracts. This shift fundamentally alters the risk landscape and underscores the need for a more robust and realistic contingency framework. Without this, there is a heightened risk of delivery delays, cost overruns, and reduced investor and supply chain confidence. We are seeking engagement with Ofgem on this point and how best to reflect this in the price control and evidence base.

Interface with Macroeconomic Factors

The RIIO-T3 period is expected to continue facing macroeconomic challenges such as supply chain disruption, market shocks, policy changes, labour shortages, and geopolitical effects, all of which contribute to increased cost volatility. In support of the draft determinations, we have sought to robustly quantify and use Monte Carlo simulation techniques to evaluate the range of possible cost volatility over the period 2026–2031 and to map this exposure onto T3 spend categories.

The highest risk cost volatility drivers identified includes, skilled labour shortages, wage inflation, regional labour premiums, supply chain capacity, equipment market pricing, and project-specific factors. Market evidence and expertise illustrates **high likelihood and impact** of cost volatility in T3, particularly across **programme labour and materials**. Net of RPE mechanisms in the Draft Determination, this

exposure could be in the range of £50m-380m over the T3 period (T3BP-DD-011 - ETQ50 Arcadis Risk & Contingency Review for SSEN Transmission)

As part of the wider uncertainty mechanism framework, within business plan, we included a cost adjustment route for baseline non-load projects where there is a material change in cost due to factors out with our control. The reopener is an annual process that adjusts ex ante baseline allowances (both upwards and downwards), which were initially set as part of the RIIO-T3 business plan, once the final construction contract costs are agreed. This would also allow for the introduction of Price Adjustment Mechanisms (PAMs) to projects as we will have a clear understanding of the risks that the supply chain face and what specific allowances are required.

Recognising that it is not feasible to adjust costs for all projects, we would apply this mechanism only when the proposed cost changes fall outside a +/-5% cap and collar threshold. This adjustment would be triggered annually to capture all projects that have finalised their costs within that regulatory year. The +/-5% cap and collar would apply on a project-by-project basis rather than a portfolio basis, as our projects may finalise costs at different times within the price control period.

It is irrational for Ofgem not to consider market volatility considering the evidence presented and Ofgem needs to introduce explicit mechanisms to help TOs to deliver in the current market.

ETQ51. Do you agree with our assessment approach for Vehicles and Transport and Non-operational Property? If not, how do you consider we should assess these costs?

Vehicles and Transport

Details related to these are covered under CAIs. Please refer to our response to ETQ57 on this for further details.

Non-Operational Property

We agree with Ofgem's approach to assessing Non-Operational Property costs using qualitative assessment based on a review of EJPs and CBAs. However, we are of the view that Ofgem reviews the materiality thresholds for its qualitative assessment and less material amounts go through the auto-approval process so that Ofgem's focus is more towards high materiality areas.

Although we are in favour of using a reopener to fund final construction allowances for our Non-Operational Property costs for certain projects, we disagree with Ofgem's proposal to move all associated costs from baseline to UM. We still need to incur development expenditure for projects such as our training campus, operational depots and transmission control centre. As such we propose Ofgem gives baseline funding for the development costs associated in each of these EJPs with final construction funding assessed as part of our reopener submission.

ETQ52. Do you agree with our assessment approach for IT&T? Do you think we should make any amendments to the assessment framework, or the thresholds employed? Should any cost categories be included or excluded from the assessment?

ETQ52 Part A: Do you agree with our assessment approach for IT EJPs?

We do not agree with the IT&T assessment criteria used to assess our IT investments, and we do not agree with the outcomes of the assessment process. A subjective assessment of a subset of projects has resulted in all projects and overhead costs being severely underfunded across several cost categories – this is a disproportionate outcome.

While we recognise the intent behind the assessment framework and its role in supporting robust investment decisions, we believe the current methodology presents several challenges that have impacted the fairness and accuracy of its outcome. Ofgem gave no up-front clarity on this framework at

SSMD or in working groups prior to business plans submission, and the assessment has produced inconsistent results to other cost categories, leading to regulatory allowances that are insufficient to deliver our projects. We disagree with the precedent set by applying cost adjustments across unrelated categories and do not understand why, for instance, Telecoms is affected by IT or why the combined position influences BSC allowances. Ofgem needs to clearly set out the logic and rationale for this assessment ahead of final determinations.

We have summarised our concerns on the IT&T assessment framework below:

IT&T Assessment Approach

The IT&T assessment framework and the level of detail required were not communicated upfront, which limited our ability to shape the submission appropriately. As acknowledged by Ofgem on slide 4 of the *ITT_draft final report*, "the assessment framework in its current detailed form was not explicitly consulted on as part of the RIIO-3 method statement." We believe that applying criteria that rely on information not previously disclosed undermines the fairness of the evaluation process.

We submitted the majority of the Telecoms and OT proposals in line with the Engineering Investment Decision Pack (IDP) guidance as Atypical Engineering Justification Papers and the information provided was designed to meet the criteria outlined by Ofgem in the IDP Guidance. As designed by Ofgem the supporting information for these investments was limited to:

- Evidence of independent views (if appropriate)
- Relevant Legislation or Industry Standards (if appropriate)
- Market Information (if appropriate)

Evaluating the investment proposal based on criteria where the necessary information requirements were incomplete or only clarified after the assessment was concluded is not a rational approach. In our view Ofgem should have requested a re-submission of these EJPs to allow companies to provide information that matched the criteria of this assessment. Ofgem needs to present a clear unambiguous set of requirements to allow assessment and have not yet done so.

Assessment Sample Set

A sample set of investments were selected for review, and then an average percentage of allowed expenditure was applied to the remaining IT projects. This approach has resulted in a disproportionate assessment outcome, with subjective decisions resulting in material disallowances across Business Support Costs, IT and OT cost categories.

In the case of the Brilliant Basics EJP T3BP-EJP-063, only the SHNOIT-A component was assessed, which focused on managing technical obsolescence in IT and OT infrastructure. The remainder of the EJP, which aimed to enhance digitalisation across IT processes, governance, and delivery quality, was not considered, despite its alignment with strategic objectives. This selective assessment does not reflect the full scope of the investments and risks undervaluing critical elements of each programme.

We request that Ofgem review the full investment programme within its IT&T assessment when reviewing the following:

- EJP-027 Telecoms Infrastructure Upgrade
- EJP-029 Station Control and Monitoring System Upgrade
- EJP-030 User Interface Upgrade
- EJP-032 Caithness Moray HVDC Cable Monitoring
- EJP-033 HVDC Centre Expansion
- EJP-035 Integrated Condition & Performance Monitoring
- EJP-040 Telecoms Network Operations Centre
- EJP-041 Transmission Substation SCADA Replacement

- EJP-042 Personnel Communications
- EJP-044 System Monitoring Replacement and Modernisation
- EJP-063 Brilliant Basics

Supplementary Information

Supplementary information was provided during the SQ process to support Ofgem's review in several areas. However, given the niche and novel nature of some of our IT projects, such as the HVDC centre, we believe further engagement is necessary to gain a full understanding of the project intent and maturity. We therefore request that ahead of Final Determinations Ofgem utilise the SQ process where necessary and consider arranging a bilateral discussion or site visit to support their review and understanding of these projects.

Inconsistent Application of Assessment Methodology

Our internal evaluation of the RAG rating assessment found inconsistencies between the expected allowances and the RAG ratings assigned, as raised in a DDQ (SSEN044). We have conducted our own calculations using the RAG ratings and assessment methodology specified in '*ITT_Draft_Report_SHET*', and our calculations yield a higher allowance than those presented in the Draft Determination.

We calculated the allowances using the RAG ratings outlined in '*ITT_Draft_Report_SHET*' and applied a 20% weighting to each of the criteria assessed and multiplied this by the RAG rating score (1=Red, 2=Amber, and 3=Green). The totalled scores for the projects were higher, leading to a different outcome in allowance based on the thresholds which have been defined for the following projects below in Table 15.

Table 15 - ETQ52 Methodology Errors

Project	Draft Determination Allowance	SHET calculated allowance
SHT20560 – HVDC Centre Expansion	50%	75%
SHT20568 – Transmission Substation Scada replacement	25%	75%
SHT20569 – Personnel Communications	50%	75%

The Draft Determination allowance is £29.38m less than the SHET calculated allowance for our IT&T capex, leading to a 13% reduction in our BSCs.

Assessment Outcome Differences

The assessment outcomes received among different assessment frameworks were substantially different despite similar levels of information being provided. For example, funding allowances varied significantly between the IT&T and D&D investments, despite the structure, content, and information provided across the four core Digital investment themes being the same.

Table 16 - ETQ52 Funding Comparison

Investment Theme	Assessment Framework	Funding %
Brilliant Basics	IT&T	50%
Enabling Network Growth	D&D	100%
World Class Asset Management	D&D	100%
Data Driven	D&D	100%

Given that the same level of information was presented across the investments outlined above, a consistent assessment outcome was expected. The variation in treatment across different assessments indicates an inconsistency in assessment methodologies and application. A similar trend can be observed for the engineering assessment with Ofgem agreeing the needs, accepting the optioneering for the majority of proposed investments.

Interaction with Price Control Deliverables and Engineering Assessment

The interaction between the **Engineering Assessment and the IT&T methodology is not clear.** Ofgem have proposed a price control deliverable associated with Transmission Substation SCADA Replacement (Reference Number: EJP-041) and System Monitoring Replacement and Modernisation (Reference Number: EJP-044). We respond in SHETQ01 with our views on the PCD but in principle we accept the PCD and believe it is reasonable mitigation against any delivery risk. Ofgem highlighted concerns with Telecoms Infrastructure Upgrade (Reference Number: EJP-027) we have responded as part of SHETQ11.

Risk Mitigation

We do not believe that risk mitigation was adequately considered across the assessment and determination of funding. On slide 9 of the *ITT_draft final report* it stated:

"Although the Risk criterion was given a RAG rating, this did not directly enter the calculation of the composite score or the determination of allowed funding and was used as context to inform the consideration of value for money and optioneering ratings."

By excluding risk from directly influencing funding determinations for essential, non-discretionary investments, it overlooks their strategic importance to long-term resilience and protection of the network.

Additional Supporting Evidence

We request that Ofgem consider the following additional evidence in the IT&T assessment:

- **Brilliant Basics EJP (Reference Number: T3BP-EJP-063)** - We request that Ofgem review our full Brilliant Basics EJP including the programmes 'Managing Obsolescence & Maintaining Currency', 'Enhanced User Experience' & 'Additional IT Tools', as confirmed in DDQ SSEN030. The updated Brilliant Basics EJP (Reference Number: T3BP-EJP-063) is contained as Appendix T3BP-DD-029 for review.

- **HVDC Centre Expansion EJP (Reference Number: EJP SHT20560 (Additional Information)** – We request that Ofgem review the additional information provided on the HVDC Centre Expansion in EJP SHT20560 attached as Appendix T3BP-DD-039 alongside EJP-033 provided within the original submission.

Other Errata

We have not had the opportunity to engage directly with Ofgem to understand the specific concerns, and we would appreciate the opportunity to discuss these matters at the earliest convenience, but we have provided broad commentary on Ofgem's findings.

Optioneering: (HVDC UI Upgrade and Caithness Moray HVDC Cable Monitoring)

HVDC UI Upgrade: The upgrade is Original Equipment Manufacturer (OEM)-specific and not supported by other vendors, so the options considered were to either maintain the current system or integrate the OEM product IdentiQ. In our view the optioneering should be marked as green, recognising these limitations. Our costs are based on manufacturer quotes and should be considered as value for money, as the cost is based on market rates.

Caithness Moray HVDC Cable Monitoring: The upgrade is OEM-specific and not supported by other vendors, so the options considered were to either maintain the current system or integrate the OEM product the monitoring system. In our view the optioneering should be marked as green, recognising these limitations. Our costs are based on manufacturer quotes and should be considered as value for money as the cost is based on market rates.

Value for Money (Personnel Communications): Replacement of the existing Private Mobile Radio (PMR) network due to its End-of-Life (EOL) status: the existing PMR network, which provides operational staff with voice communication capabilities, is nearing its EOL status. The manufacturer has announced that production of replacement parts and hardware will cease, leading to challenges in maintaining or replacing these components. This could result in a loss of voice communication capability, severely impacting the operational teams' ability to manage daily tasks and respond effectively during emergencies. Besides being a threat to our staff health and safety, consumers may experience longer supply disruptions during such events. In our view the needs case should be green and value for money is a secondary consideration which should not impact funding.

Cost Assurity (Integrated Condition Performance. And Transmission Substation SCADA Replacement and System Monitoring Modernisation Project).

For Transmission Substation SCADA Replacement, we accept the PCD proposed, and this will mitigate Ofgem's concerns on cost assurity as the PCD will be evaluated at the end of the price control and therefore this assessment criteria should be marked as 'green'.

For system Monitoring Replacement and Modernisation, we accept the PCD proposed, and this will mitigate Ofgem's concerns on certainty as the PCD will be evaluated at the end of the price control and therefore this assessment criteria should be marked as 'green'.

Integrated Condition Performance Monitoring: NESO's recommendations following the North Hyde incident advise considering the adoption of advanced technologies, such as continuous monitoring, for assessing the condition of critical assets. Our ICP proposal aligns with this guidance, and accordingly, the needs case should be marked as green. Consistent with precedents established for other deliverables, we believe that a PCD will address Ofgem's cost-related concerns and this approach would be consistent with the RIIO-T2 regime.

ETQ52 Part B: Do you think we should make any amendments to the assessment framework or the thresholds employed?

Yes, due to the reasons stated above we request re-evaluation of the IT&T assessment framework is undertaken. As part of the re-evaluation Ofgem should consider the following amendments to make the assessment more proportionate:

- We propose that operational rationale and risk mitigation be included in the Stage 3 calculation of composite score and determination of allowed funding, as these are critical to addressing network risk and supporting consumer value.

- We propose that Ofgem set a materiality threshold of >£5m in totex for projects selected for IT&T assessment, ensuring only projects of sufficient scale and appropriate magnitude are considered for full IT&T assessment. This would bring the IT&T process into alignment with the IDP guidance. Investments below this threshold should be fully funded.

- During review of the Draft Determination responses, we request that Ofgem utilise the SQ process and consider arranging bilateral discussion or site visits where necessary, to highlight any areas requiring further information that may impact their decision-making at Final Determination.

- We ask Ofgem to clarify the process for obtaining funding for projects that have an approved needs case but are under-funded, especially considering the single mid-period re-openers for BSC and Digitalisation. Where the need is driven by an obsolescence or safety issues these investments should be fully funded.

- Due to the bespoke costs associated with each project, providing a RAG rated review against benchmarking is not appropriate, as consistent comparison is not possible. Therefore, we request to remove benchmarking from the assessment criteria.

- We request that Ofgem conduct an internal cross-review to ensure a fair and balanced assessment, with Brilliant Basics being reviewed by the D&D team and all other EJPs reviewed by the engineering team.

- We request that if Ofgem identifies significant delivery concerns (red), these should be mitigated with a PCD, and that delivery risks do not affect allowances, as the PCD addresses potential risks of non-delivery and inefficiency. Ofgem has already applied this to two projects: Substation SCADA Replacement; System Monitoring & Modernisation; it should consider the application of a PCD to the Integrated Condition & Performance Monitoring proposal to mitigate perceived delivery risk.

- We propose the following refinements to the IT&T assessment criteria to support fairness and viability of delivery, ensuring resources are allocated to initiatives that meet the established criteria and offer value for stakeholders and customers.

    - **Thresholds**: We believe the current four-step funding should be adjusted to provide more granular outcomes when a strong needs case is presented. We propose revising the thresholds to 50%, 75%, 95%, and 100% to ensure appropriate and proportionate funding support is available.

    - **Scoring**: Introducing a rounding-up mechanism for scores near a threshold would help ensure projects receive sufficient funding to proceed.

    - **Weightings**: We recommend incorporating the needs case into the scoring framework, alongside costs and other key factors, to support a balanced and comprehensive assessment. This approach ensures allowances reflect the strategic need, cost and consumer value of each project. Illustrated in Table 17 below.

Table 17 - ETQ52 Weighting Proposals

Assessment Area	Proposed Weighting
Needs Case	50%
Value for Money / Risk Mitigation	7.14%
Optioneering	7.14%
Scope Determination	7.14%
Delivery Certainty	7.14%
Delivery Risk	7.14%
Cost Assurity – Efficiency / Effectiveness	7.14%
Cost Assurity – Cost Estimation	7.14%

We welcome the opportunity to engage with Ofgem on this further.

ETQ52 Part C: Should any cost categories be included or excluded from the assessment?

No, we have not identified any cost categories that should be included or excluded.

ETQ53. Do you agree with our quantitative assessment approach, i.e. unit cost and annual average costs using RIIO-ET2 and RIIO-ET3 data? If not, how should we carry out the quantitative assessment?

We broadly agree with Ofgem's quantitative assessment approach i.e. unit costs and annual average costs using RIIO ET2 and RIIO ET3 data, where the scope of activities between the two time periods is broadly the same. The approach puts downward pressure on unit costs and encourages efficiency.

However, Ofgem must recognise that some activities in NOCs are becoming more costly, time consuming and complex as a result of an increasingly more complex and bigger network across a large complex geographic area in the North of Scotland. We would strongly encourage Ofgem to supplement the quantitative analysis with qualitative assessment to recognise the expected change in activities within the T3 period. It is not always suitable to assume that TOs can increase efficiency relative to the past, particularly where justified by changes in scope of activities or increased complexity in NOCs activities. If TOs can justify this, then allowances should reflect this change in scope.

In our view a more pragmatic approach would be to increase the weighting of any unit cost or annual average cost assessment towards the T3 submission figures to allow for genuine increases in scope or complexity of the work being undertaken, for example a 15/85% weighting of T2/T3 costs. This is particularly important for Ofgem's annual average cost approach as otherwise network growth is not taken into account at all in the allowances set.

We have included updated values for subsea cable inspection and substation electricity volumes as part of T3BP-DD-029_BPDT Errata.

ETQ54. Are there any NOCs categories or sub-categories that we should have excluded or included from quantitative assessment? If excluded, how should we assess them?

We agree with Ofgem's application of quantitative assessment on selected NOCs categories except Operational Technology (OT).

We are of the view that Operational Technology (OT) should be assessed qualitatively as these systems are critical to the safe, secure and efficient operation of the network, and their value cannot be captured holistically through quantitative methods. A qualitative assessment allows for a more informed judgement of the strategic importance, urgency and long-term benefits of these costs.

While we agree with Ofgem's exclusion of Long-Term Service Agreements (LTSA) from its quantitative assessment, LTSA should also be excluded from application of Ongoing Efficiency (OE). LTSAs are typically fixed price or indexed contracts commercially negotiated upfront with Original Equipment Manufacturers (OEM) or specialist providers.

The scope, pricing and service levels are contractually agreed for multiyear periods, leaving no scope for further cost reduction through efficiency assumptions. LTSAs also include inflationary uplifts, meaning any further efficiency overlay would effectively double-count reductions and disallow legitimate, unavoidable costs. Once agreed with the supply chain, TOs are locked into these contracts and efficiencies are not able to be stripped out during the life of the contract. Therefore, it is not appropriate for ongoing efficiency to be applied to LTSAs.

We have included updated values for LTSA costs as part of T3BP-DD-029_BPDT Errata.

ETQ55. Do you consider that the 25% and £1m thresholds are appropriate for the quantitative assessment of NOCs? If not, what should the thresholds be and why?

We agree with the thresholds used by Ofgem for quantitative assessment of NOCs.

ETQ56. Do you support our qualitative assessment framework for NOCs other (Vegetation Management, Ongoing environmental costs, Small Tools Equipment Plants & Machinery (STEPM) and company bespoke NOCs other costs) and Flood Mitigation? If not, how should we assess these costs? Are there any additional costs that we should include in this framework?

We agree with Ofgem's qualitative assessment framework for the NOCs categories outlined.

On flood mitigation, we note Ofgem raised concerns regarding our optioneering and substations at risk of flooding requiring intervention. Ofgem also raised concerns regarding town and country planning and requested further information on where works are required beyond existing site boundaries.

We would encourage Ofgem to consider raising the materiality threshold for Low total cost automatic approval process, to ensure that immaterial, but high value items like STEPM are captured in this process. These items are essential for the safe, reliable operation of the network but are small in value. We would encourage Ofgem to be proportionate in its review of such costs and focus on material items rather than conducting a full review through the qualitative framework.

Additionally, we have noted that Ofgem has not included our submitted costs for Compensatory Tree Planting in the overall costs modelled for Vegetation Management. Through the introduction of National Planning Framework 4 in Scotland, Local Authorities expectations for ensuring biodiversity net again on

capital projects is growing significantly. Local Authorities are now putting more stringent planning conditions in order to grant consents to large construction projects. One common planning condition that is included within consent granting is the requirement to replace trees that have been cut down to facilitate a construction project.

Compensatory planting involves replanting trees at an offsite location to counterbalance the removal of existing trees for development projects. Development projects requiring planning consent through Local Planning Authorities (LPA) often face conditions aligning with Scotland's Control of Woodland Removal Policy and NPF4, ensuring no net loss of woodland. Scottish Forestry, the Energy Consents Unit, LPAs as regulators increasingly require evidence that an equivalent compensatory planting scheme to match woodland lost has regulatory consent (EIA) and is fully secured through legal agreements before the determination of planning permission for the dependent infrastructure development project.

As planning authorities are currently considering compensatory planting as a predetermination condition, we are therefore required to plan and secure the compensatory planting schemes accordingly until it is confirmed otherwise. Therefore, the land team gather requirements from project teams for compensatory tree planting to prepare ahead of planned planning consent submissions to local authorities. Exact requirements for planning are not known until conditions are provided by the local authority.

To deal with this, initial funding is required to undertake the initial compensatory planting. This in effect is an upfront payment, upon agreement with the landowner to deliver the compensatory planting. This is followed by ongoing funding which comprises of ongoing maintenance requirements over the life of the agreement on an annual basis. This covers ongoing maintenance costs incurred by landowners.

Considering the importance of this activity, we have included compensatory tree planting costs in our resubmission, as they are essential for meeting environmental obligations and delivering projects sustainably and responsibly.

We have included updated values for Compensatory Tree Planting costs as part of T3BP-DD-029_BPDT Errata.

ETQ57. What are your views on the proposed blended approach to CAI? Do you agree with the weights applied?

We disagree with Ofgem's approach to assess CAI costs. For the reasons explained further below Ofgem's approach is materially flawed due to several methodological errors that must be corrected in Ofgem's Final Determination (detailed below).

1. Ofgem's modelling demonstrates a wide range of efficiency scores, such as a 240% gap between the most and least efficient TOs, this is indicative of an erroneous modelling approach—likely caused by omitted variables or missing data—rather than true differences in CAI efficiency. This must be resolved by final determinations by ensuring comparable data across TOs. The starting point for this must be establishing gross cost for indirects across the RIIO-T3 period, this will provide Ofgem with a view on the total CAI costs to deliver CP2030 and provide data to design funding mechanisms including the CAI UIOLI and PCF allowances.
2. Ofgem has relied too heavily on econometric modelling based on (historic) sectoral benchmarking with limited adjustments for growth and the diverse challenges for each company. We consider excluding regression modelling entirely or applying a higher weighting (75%) to the TO-specific ratio analysis would appropriately reflect Ofgem's objectives: controlling for historical efficiency while more effectively capturing each TO's distinct forward-looking cost pressures.

For the reasons listed above our position is to completely exclude Econometric modelling and solely utilise TO-specific ratio analysis to establish CAI allowances. However, if the errors identified are corrected, and data comparability established, we could potentially accept the concept of a blended approach to CAI cost assessment, albeit with a higher weighting on TO-specific ratio analysis, as this reduces the risk of one assessment method giving an unfavourable outcome for TOs whose submission does not align with the assumptions and drivers used within the modelling suite.

Modelling Errors

On the CAI ratio model approach, we agree with the use of capex as a ratio for CAI assessment, however we disagree with Ofgem's approach of taking the median ratio seen across each TO's 5-year expenditure profile within RIIO-3 and using this to "flatten" the expenditure profile. Ofgem's current approach favours submissions where CAI costs for RIIO-T3 have been estimated by applying a fixed percentage uplift to capex and penalises submissions where actual year-on-year CAI expenditure has been forecast and contains higher peak expenditure figures compared with the median. The correct approach for this category would be to take a mean of the CAI/capex ratio and use this to scale down the CAI profile as submitted rather than "flattening" it.

On the regression modelling approach, we have several concerns with Ofgem's decision making and assumptions going into the modelling suite. We observe significant gaps between predicted CAI from the econometric approach and the TO-specific ratio analyses, up to a factor of three in the case of SPT. This is illustrated in Table 18 below.

Table 18 - ETQ57 Ratio Analysis

TO	Assessed baseline CAI (£m)	Predicted CAI (econometric modelling, £m)	Predicted CAI (TO-specific ratio analysis, £m)	Aggregate predicted CAI (£m)	Gap (£m)	Gap (%)
SSEN-T	511	273	471	372	139	27
SPT	525	181	541	361	164	31
NGET	449	886	494	690	-242	-54

While Ofgem acknowledges that forward-looking pressures, such as required operational expansion, or increase on headcount are not visible in the historical data,[1] Ofgem still assigns a 50% weighting to the outcome of the econometric analysis, whilst using this same historical data. As such, the cost predictions from Ofgem's econometric modelling are unlikely to accurately represent each TO's needs regarding their own forward-looking pressures.

Efficiency scores need to be in a sensible range. A wide variation in efficiency scores may suggest underlying issues within the model. Notably, an absolute disparity of 240% between the most and least efficient TOs is unlikely to represent actual differences in CAI efficiency. This observation indicates possible modelling concerns, such as the presence of omitted variables or missing datapoints.

These very wide ranges in efficiency scores are extreme compared to the vast majority of regulatory assessments OFGEM has performed in the recent past.

Table 19: ETQ57 Efficiency Scores

Price review / Regulator	Cost area	Efficiency score range (minimum-to-maximum)	Standard deviation
T3 / Ofgem	Indirect costs (CAI and BSC)	1.86	0.67
T2 / Ofgem	Indirect costs (CAI and BSC)	0.30	0.11
ED2 / Ofgem	Totex	0.28	0.07

Ofgem's econometric modelling includes a time trend variable, which we find problematic for four main reasons:

1. It is irrational for Ofgem to, on the one hand, assume that CAI will reduce by at least 4.2% per annum[2] through the inclusion of a time trend, and, on the other hand, acknowledge '*the scale and complexity of TOs' significant challenges associated with the forecast step change in costs linked to the delivery of CP2030.*'[3] Indeed, for the inclusion of a time trend to be appropriate, it must be accompanied by robust economic or engineering rationale that justifies trends over time *for the sector as a whole*.[4] However, the only justification provided by Ofgem for including the time trend in the CAI model was to capture '*unobserved time effects*.[5] This justification does not provide an intuitive explanation for what effects are being captured by the variable, or, importantly, an indication of what the sign and magnitude of the variable should be.
2. The time trend variable does not have a statistically significant coefficient at least at the 10–20% level – which, while not as strong as the 1% or 5% levels, is generally considered sufficiently robust for inclusion when supported by a clear and strong engineering/economic and the absence of any stronger alternatives – with a relatively high p-value of 0.282. From a purely statistical perspective, this implies that this variable does not have strong explanatory power,
3. The inclusion of a time trend variable within the CAI model is inconsistent with the fact that one has not been included or assessed on prior CAI periods, and within the proposed BSC model. The rationale for this inconsistency is not explained in the methodology,
4. Ofgem's transparency in variable selection seems to fall short of established regulatory best practices. Similar proposals for variables to capture time effects have been made in the water sector, but Ofwat has rejected them with explanations. Despite being statistically significant, Ofwat has previously dismissed the use of a time trend proposed by companies due to the lack of a clear rationale for the coefficient's sign and magnitude, and the possibility that some drivers of the time trend were within management control.

We conclude that the inclusion of a time trend in the CAI model is an error. Therefore, we consider it essential that the time trend be removed from this model, given the absence of any economic or engineering rationale for its inclusion, the fact the coefficient is highly statistically insignificant,[6] and its inconsistent application across models and without a clear methodological explanation.

TO ratio benchmarking

Unlike the time trend, CAPEX is an economically intuitive cost driver and shows comparatively higher statistical significance than the time trend, at 0.185. In addition, if SSEN-T's 2021 CAPEX value is excluded from the regression analysis—as Ofgem did in its FTEs-CAPEX analysis—the statistical significance of CAPEX improves markedly, becoming significant at the 5% level.

We agree with Ofgem's approach of, using a 50:50 weighting between the CAI/MEAV and CAI/CAPEX in ratio analyses. Considering the numerous issues and errors highlighted above regarding the econometric modelling of CAI based on historical relationships, and the heterogeneous expected growth pressures for the ET sector, assigning a weighting as high as 50% to the outcome of the econometric modelling is not justified. Ofgem should apply at least a 75% weighting to the TO-specific ratio analysis which would better balance between Ofgem's objectives: controlling for historical efficiency while more effectively capturing each TO's distinct forward-looking cost pressures.

[1] Ofgem (2025), 'RIIO-3 Draft Determinations - Electricity Transmission Annex ', 1 July, para. 5.100.

[2] Combined with a 1% compounded frontier shift target, all other things being equal the cost reduction becomes even more significant, from c. 5% in 2024/25 to c. 34% in 2030/31.

[3] Ofgem (2025), 'RIIO-3 Draft Determinations - Electricity Transmission Annex ', 1 July, para. 5.103.

[4] The conceptual foundation for cost modelling in regulatory contexts is that the model should aim to explain the relationship between costs and cost drivers across the full set of comparators (in this case, all TOs), or at least the vast majority, rather than fitting the trend of any individual company

[5] Ofgem (2025), 'RIIO-3 Draft Determinations - Electricity Transmission Annex ', 1 July, para. 5.112.

[6] Whether or not SSEN-T's 2020/21 CAPEX value is considered in the modelling, as the p-value remains above 0.2.

ETQ58. Do you agree with the CAI UIOLI allowance to support TOs growth ahead of CP2030? What are your views on the scope and chosen level of CAI UIOLI funding?

This response should be read in conjunction with ETQ26. We cannot agree with the introduction of the CAI UIOLI as it is not clear which CAI costs can be recovered, how this allowance would be scaled to new projects and how it interacts with baseline funding and other funding mechanism across the price control. Ofgem must show that all CAIs are recoverable without any funding gaps in CAI routes for all reopeners throughout the price control, and the CAI UIOLI should not limit total recoverable CAI costs for pipeline projects.

Before endorsing the CAI UIOLI proposal, it is crucial to establish a comprehensive understanding of the full range of reopener mechanisms applicable to CAIs throughout the entire price control period, including those linked to future strategic projects such as LOTI, ASTI, and CSNP. The CAIs associated with these strategic projects are expected to significantly influence overall funding allocations during the period and are critical to ensuring TOs are funded deliver our commitments delivering Clean Power 2030 (CP2030) and UK Government Net Zero Ambitions. Therefore, it is essential that:

- Each Transmission Owner's complete RIIO-T3 projections are evaluated with transparency and consistency.
- The full set of reopener mechanisms is clearly defined to enable TOs to assess materiality in a holistic and informed manner.

Scope

RIIO-T3 presents uncertainty in the required investment due to Clean Power and uncertainty in the required costs associated with indirects. It is crucial to ensure that projects are delivered at pace that the allowance can be adjusted during the price control to reflect the number of projects required and any increase in indirects.

We support the flexibility that this gives TOs but we are concerned that the scoping and sizing of the CAI UIOLI pot has not been articulated, in particular clarity on what CAIs can be recovered through the pot, across Pre-construction funding, and internal staff indirects, as well as growth indirects (e.g. not so

closely associated indirects). We are concerned that unless this is clarified there may be ongoing confusion and discussions during RIIO-3 about the scope of this allowance.

In addition, there is no detail provided in the draft determinations as to how this CAI UIOLI will be scaled or flexed during the price control. There must be a mechanism in place to add projects to the scope of this allowance as new requirements are added during the price control. This should include additional shared use connections work which fit into the cost criteria of £25-150m. Ofgem must set out clear triggers for this proposal and engage with TOs ahead of the final determinations.

The CAI UIOLI must be sized to reflect our additional non baseline schemes across our Load and Resilience portfolio to support the recovery of eligible schemes (i.e. £25m-£150m) reflecting the c£1.2bn of CAIs marked as UM within out BPDTs.

CAI UIOLI Allowance

The CAI UIOLI must not limit total recoverable CAI costs for pipeline projects, and we should have a clear route to funding for efficient costs. In determining the parameters for the CAI UIOLI pot, Ofgem needs to consider that there are a suite of reopeners that will determine the overall level of CAIs that TO's will be eligible during the RIIO-T3 period.

This will include baseline CAIs, CAIs embedded within volume driver unit rates, CAIs approved through the UIOLI pot and CAIs approved for large strategic schemes (LOTI, ASTI, CSNP) through project assessments. As seen through the RIIO-T2 period the scale and materiality of CAI expenditure is significant considering the additional cost associated with developing and delivering our large capital programs and the wider growth of our business to support the scale of investments.

We would expect the separate PCF pot to provided efficient funding for Contractor Indirects and Gate 0-3 internal costs, totalling c.11.74%. This is in line with Option 1 proposed in ETQ26, however we note there are options here which depend on how Ofgem wishes to fund indirects for these schemes. Under Our preferred option we have considered an appropriate sizing of the CAI UIOLI pot based on our T3 forecasts and we believe a minimum of 8% CAI UIOLI pot is necessary to provide efficient funding for Internal Staff (construction – gate 3-5) costs.

Table 20 - ETQ58 CAI UIOLI Allowance Components

CAI Component	PCF inc CI	CAI UIOLI	nsCAI	Total
Option 1	11.74%	8%	tbc	20%+tbc
Option 2	3%	16.74%	tbc	20%+tbc

The UIOLI allowance percentages above exclude any additional funding associated with the wider business growth costs required to support our capex spend (i.e. nsCAI). An additional uplift should be included over and above the totals out above to account for the wider business growth that will be required to support our capex program. In order to calibrate the additional uplift, our view is:

- Any uplift should be assessed considering each TO's full best view projections; and
- Should take into account the full suite of funding routes for CAI across all categories.

In addition, clarity is needed about how residual nsCAI is to be recovered (i.e. those for which the CAI UIOLI does not apply). The default for this would be Project Assessments. The guidance documents for the LRR and CSNP-F must recognise that nsCAI can be recovered, where justified by TOs.

We require a true up at Project Assessment for schemes which exceed the PCF and CAI UIOLI pot for schemes progressing through the LRR. This would provide protection for both TOs and consumers to

ensure efficient funding of indirects for these schemes. It would also remove the need for a separate mechanism to true up funding on PCF or CAI UIOLI allowances.

ETQ59. Do you agree with our proposal to remove the opex escalator for RIIO-ET3?

We agree with Ofgem's proposal to remove the opex escalator for RIIO-ET3. But this agreement is contingent on establishing clear definitions on CAI allocations and the guidance on PCF, CAI UIOLI and project assessment, please see our response to ETQ26 and ETQ58.

ETQ60. Do you agree with our approach to BSC? How do you think this could be improved?

We do not agree with Ofgem's approach to BSC assessment. The methodology does not support network company growth aligned with CP2030, and there are significant errors in their allowance calculations detailed below.

1) The decision for Ofgem not to fund growth BSCs and our full ex ante ask is irrational given the growth required to deliver CP2030. To support growth Ofgem should provide companies with BSC allowances with an ex-ante baseline, an additional uplift for growth and reopeners for further funding. The starting point for this must be establishing gross cost for indirects across the RIIO-T3 period, this will provide Ofgem with a view on the total BSC costs to deliver CP2030 and provide data to design a mechanism for growth uplifts during T3.
2) Ofgem was wrong to rescale our submission to support a regression model that takes a reductive view of the T3 period resulting in a "baseline only" view of investment and FTE growth. Our Plan including CAPEX and FTE profiles, is designed to allow us to deliver our full capex ask of c.£32bn during the T3 period required to meet CP2030, and more importantly allow Ofgem to assess efficiency and set appropriate cost challenges as they can take a view on the total cost of delivery. An arbitrary rescaling of investment profiles and FTE allocation does not achieve this objective nor achieve a deliverable plan.
3) Ofgem intended to provide a growth uplift via a combination of regression and forward-looking FTE ratio and trend analyses. The modelling combinations by Ofgem fail to achieve this. Instead of the 50/50 weighting applied by Ofgem between the econometric and TO-specific trend analysis, the correct approach would be a fully integrated approach that combines both parts of Ofgem's methodology.
4) We disagree with the approach that Ofgem has taken to assessing costs in the Business Support Costs (IT&T) area by linking IT&T capex cuts directly to IT&T opex allowance, this could be improved if Ofgem addresses our concerns with the IT&T Capex assessment.

Growth

Our BSC costs are not fixed, our network is expected to undergo substantial expansion between 2026 and 2031, with multiple new 400kV overhead line routes and HVDC subsea cables to support the integration of large volumes of offshore wind power. Our RAV is expected to grow from c.£9bn at the end of RIIO-T2 to c.£29bn at the end of RIIO-T3, an approximately three-fold increase. To accommodate this future growth, our BSC cost activities must scale up significantly in advance of delivery, as our current headcount cannot support delivery.

We have forecast our headcount and workforce requirements over the RIIO-T3 period. In RIIO -T2, we have observed significant developments during the price control that were not envisaged at the start, with the introduction of ASTI and the CP2030. We know that the NESO will be publishing additional plans

(through the CSNP and SSEP processes) which may require further steps up in workforce resource, during the RIIO-T3 period. We cannot predict what the outcome of these publications are and, therefore, there is uncertainty on the level of activity required during the RIIO-T3 period.

We therefore require an adjustment mechanism to allow allowances (e.g. head count) due to delivery of our wider capital program, sector growth, policy changes and industry reform (e.g. connections reform, competition), please see our response to ETQ61 for our proposals.

Overarching Modelling Concerns

On the *input* to the BSC models, Ofgem has undertaken a "normalisation" exercise that has reduced our T3 expenditure and FTE forecasts significantly. We fundamentally disagree with the narrow view Ofgem has taken when it comes to the costs that should be funded via the RIIO-3 price control.

On FTEs the view Ofgem has taken is particularly unrealistic – our current estimate is that our headcount will reach c.3,200 by the end of RIIO-T2 and will continue to increase to c.4,200 by the end of RIIO-T3. Our headcount is informed by our capex delivery profile and the need to deliver £32bn of investment ahead of 2031 as detailed in the BPDT.

Ofgem has reprofiled our headcount number down to 2,261 at the start of RIIO-T3 and to 2,354 by the end of the period – this represents a reduction from our current headcount despite RIIO-T3 representing the period of fastest growth in the size of our network since privatisation. It is irrational for Ofgem to expect a TO headcount to decrease as its network grows larger, this means the modelling approach Ofgem has used is fundamentally disconnected from the reality of how our business is operating and the FTE requirements to meet CP2030.

Econometric modelling

Within the BSC regression model, we have concerns around the assumptions Ofgem has used in terms of calculating the CSV element and the weighting of T3 vs T1 and T2 expenditure.

Period objections: the econometric modelling based on historical data alone cannot capture the forward-looking pressures that each TO will face over the course of T3. This limitation arises primarily from its sole reliance on past trends over the 2014–2024 period, which can indicate whether TOs have historically been assessed as cost-efficient in their indirect cost expenditure, but cannot determine whether their T3 business plans are efficient. Furthermore, we understand that Ofgem's decision not to rely on forecast data in the econometric modelling is primarily driven by the opposite forecast trends submitted by NGET versus SPT and SSEN-T, which they consider may highlight issues with quality of the underlying data in the business plans submitted by each TO.

"*While we do recognise that CP2030 could have a significant impact on TOs' expenditure in RIIO-ET3, our choice of time period has been constrained by the quality of the underlying data submitted by TOs. As mentioned in paragraph 5.96, TOs did not follow a uniform approach to reporting their forecast expenditure for CAI and BSC for the RIIO-ET3 period*".[1]

[1] Ofgem (2025), 'RIIO-3 Draft Determinations - Electricity Transmission Annex ', 1 July, para. A2.4.

Prior to FD, Ofgem must either (i) better harmonise the underlying data to allow forward-looking pressures to be reflected directly in the econometric modelling, or (ii) introduce additional forward-looking models to complement and outweigh the current reliance on historical data which could be maintained for assessing historical cost efficiency. Our preference is (i), and that a best view assessment is carried out to set an upper bound on the modelling, followed by appropriate mapping of indirects allowances to recovery mechanisms.

Model Objections: Ofgem conducted a regression analysis to determine the extent to which best view FTEs should be reduced to reflect baseline FTEs. However, we consider that certain improvements are

necessary to ensure greater consistency with Ofgem's proposed econometric modelling for assessing indirect costs.

First, it is unclear why model 2 was selected over the other four FTEs-CAPEX models,[1] as this choice is not justified in either the methodology document or the supporting modelling file.[2] [1] We consider the only FTEs–MEAV model not to be a suitable candidate for adjusting best view FTEs, as the MEAV methodology is continuously evolving and, unlike CAPEX, MEAV is not directly forecasted by TOs—meaning it has likely not been considered by TOs when estimating best view FTEs. [2] Ofgem (2025), 'Drivers – FTE Baseline Regression Data', July.

Second, regarding the selection of model 2, we identify three main issues, that should be addressed at FD should a modelling approach be retained (see further explanation below).

- Estimating the relationship between CAPEX and the number of FTEs over the 2014–2031 period. This is inconsistent with Ofgem's proposed CAI and BSC models, which solely rely on historical data. This is problematic because the adjusted baseline FTEs resulting from this modelling are ultimately used as inputs to the BSC econometric modelling based on historical data. While the use of forecast data should be favoured to capture forward-looking pressures where appropriate, given the purpose of this ad hoc methodology, the correct approach is to rely on well-established historical relationships and avoid mixing TOs' heterogeneous T3 forecast trends with historical data. The modelling period should therefore be adjusted to 2014–2024, or 2014–2025 should the 2025 data be incorporated into Ofgem's FD modelling.
- Making inconsistent data exclusions with CAI econometric modelling. While SSEN-T's 2021 CAPEX is excluded from the CAPEX-FTEs regression analysis, it is included in the CAI econometric modelling. We recommend consistently including or excluding this single observation in both cases.
- Misaligning historical data with BSC econometric modelling. We noted some discrepancies in the underlying CAPEX data used in this regression and therefore recommend using the same dataset in both cases.

TO-specific trend analysis

There is a well-established relationship between BSC and the number of FTEs,[1] as noted by Ofgem:[2]

We consider FTE as a measurement of personnel to be a robust driver of BSC costs that has been affirmed through our regression work and has regulatory precedent.

Running a regression over the 2014–2024 period also validates the 1:1 indexation used by Ofgem as we find a coefficient of 1.02, statistically significant at the 1% level and not statistically different from 1. Under the current data assumptions for T3, there is limited scope to directly incorporate forecast data into the econometric modelling, due to differing BSC trend assumptions made by SSEN-T /SPT and NGET over T3, which distort the estimated relationship between BSC and the CSV.

The TO-specific trend analysis proposed by Ofgem offers a strong alternative to econometric modelling, as it enables one to directly capture TO-specific expected BSC trends over T3. However, we view the 2024 starting point for indexation to FTE growth as overly arbitrary, given the absence of supporting analysis demonstrating that it reflects an efficient and representative baseline.

We therefore recommend using a five-year historic average to alleviate such concerns.

[1] For example, in the UK's Transparent Approach to Costing (TRAC) system, FTEs are used as a key cost driver primarily to allocate indirect and support costs to research projects and institutional activities (source: TRAC development Group (2024), 'TRAC guidance: The Transparent Approach to Costing for UK higher education institutions', July. Similarly, in BT's Activity-Based Costing (ABC) system, labour-related costs allocated by FTE are broken down and attributed according to detailed methodologies found

in BT's official Accounting Methodology Documentation (source: BT Group (2024), 'Accounting Methodology Documentation: Relating to the 2024 Regulatory Financial Statements').

[2] Ofgem (2025), 'RIIO-3 Draft Determinations - Electricity Transmission Annex ', 1 July, para. 5.139.

Integrated Approach

Instead of the 50/50 weighting applied by Ofgem between the econometric and TO-specific trend analysis, we recommend a fully integrated approach that combines both parts of Ofgem's methodology. Within this approach, historical BSC predictions are used as the starting point for the 1:1 indexation to baseline FTE growth.

Within this newly introduced joint BSC approach, the average annual BSC projections based on the last five years of outturn data are used as the starting point for the 1:1 indexation to baseline FTE growth, replacing the previously arbitrary use of 2024. This would mitigate the impact of dissimilar data between TOs and help to capture the efficient cost path towards T3 investment horizon.

Further Objections on BSC methodology for Draft determinations

DD Ratio calculation Objections: The TO-specific trend analysis (£358m for SSEN-T) is incorporated alongside the econometric modelling is unclear. Ultimately, this figure appears to have been reduced to £316m outside the modelling files, resulting in a £21m discrepancy following triangulation with the econometric outcome. Insurance costs also appear to have been omitted from the £316m. This difference still not clarified by OFGEM remains outstanding as non-reconciling item after OFGEM's BSC adjustments. This must be resolved by final determinations.

Overall Model-Ratio conclusions

The nature of Ofgem's proposed econometric and non-econometric approaches does not justify running them in complete isolation and then simply combining the results. Methodological rationale must be provided so TOs can know exactly the rationale and justification for regulatory cost control decisions.

Business Support Costs (IT)

With respect to the separate cost assessment of BSC IT, whilst we disagree with the approach that Ofgem has taken to assessing costs in the Business Support Costs (IT&T) area by linking IT&T capex cuts directly to IT&T opex allowance, this could be improved if Ofgem addresses our concerns with the IT&T Capex assessment methodology and includes our Data and Digitalisation project assessment in calculating the % allowed for all IT and D&D capex and then applying this to BSC IT&T costs. Please see our response to ETQ52 for further information.

ETQ61. Do you agree with our proposal to introduce a BSC Re-opener? What are your views on the proposed design? What alternatives to a BSC Re-opener do you see as viable?

We agree with the need for a mechanism to adjust BSCs during RIIO-3, however we disagree with the proposed BSC reopener. From our perspective, there are four primary approaches for recovering BSC indirect costs, including those associated with growth components.

Table 21 - ETQ61 BSC Recovery Options

Options	Mechanism	Benefits	Risk
Full Ex-Ante Funding	Allowance is set appropriately to ensure efficient funding to support **all investments** in the price control, based on best view. A mechanism would need to be in place to adjust BSCs to reflect changes to best view during the period.	Supports anticipatory investment and delivery at pace and there is no funding gap whilst scaling the organisation and provides certainty to TOs supporting acceleration to delivery.	A perceived risk to consumers, due to uncertainty of projects, leading to a funding award that is not required.
Baseline + Reopener	Allowances set at a baseline level, with a reopener to recover additional cost, once those costs have been occurred.	Mitigates the perceived risk to consumers, due to uncertainty of projects.	Does not support anticipatory investment or delivery at pace and there is potentially a funding gap.
Baseline + Scalar	Allowances set at a baseline level, with an automatic scalar to recover additional cost, once need for projects has been confirmed.	Mitigates the perceived risk to consumers, due to uncertainty of projects and no funding gaps.	Calibration of a scalar will be difficult and will require true up at close out.
Fixed Funding + Gross Cost Project Assessment	Ex ante funding for all fixed cost components and baseline capex schemes with project-based assessment for growth project cost.	Projects assessed as a whole (all costs driven by that projects) removes the definitions issues seen throughout T2 and no funding gaps dues to whole cost assessment.	Introduces regulatory burden for TOs and Ofgem and delays and increases regulatory complexity assigning funding to baseline and project costs.

We submitted our plan on the basis of full ex-ante funding reflecting the need to scale in advance, and our plan is designed to allow us to deliver our full totex ask of c.£32bn during the T3 period, and more importantly, allow Ofgem to assess efficiency and set appropriate cost challenges and **take a view on the total cost of delivery.** In our view, there is limited uncertainty in our plan with the majority or the investment known and certain, and subject to Ofgem assessment via ASTI, LOTI and RIIO-T3 and tCSNP, which reflects the Clean Power Pathway. Therefore, we do not believe concerns around uncertainty of projects proceeding to be a major factor in the setting of BSC allowances.

We disagree with Ofgem's proposed reopener design in terms of the proposed materiality threshold and rationale. Ofgem's threshold at, 15% of our Non-Variant Totex, would represent an overspend of c.£277m. Ofgem has suggested this threshold has been set to ensure TOs reduce expenditure in other areas before triggering the BSC reopener. This is significantly more than standard materiality thresholds proposed in RIIO-T2 and RIIO-T3 and Ofgem's rationale does not consider how network companies will fund this expenditure, nor a justification of the increase in regulatory burden. It goes against regulatory precedent to expect TOs to fund legitimate spend in indirects at risk, via outperformance in incentives or via efficiencies in other areas of totex.

This suggests the materiality threshold Ofgem has proposed is far too high. If Ofgem were to maintain this form of BSC reopener we view that a much lower materiality threshold would be required – this should be consistent with the design of other reopeners within the T3 price control. See our response to OVQ34 for detail. Secondly a reopener approach creates a funding gap, we cannot recover spend until the reopener window and the material threshold has been breached this creates regulatory burden and delay.

We are also of the view that BSCs should not be reviewed as part of Gross Cost Project Assessment submissions via the RIIO-3 suite of UMs. By the time we have developed a project to the point of contracts being finalised, we will already have incurred overheads associated with recruiting and equipping the staff required to develop this project. Assessing costs piecemeal will limit efficiency assessments and in our view increase the risk of double funding across project assessments. Allocating BSC costs to individual projects and including in project assessments would also be challenging and likely require arbitrary % splits, which may impact on any cost assessment process at the time.

With the above in mind, our preference would be for Ofgem to establish **an automatic uplift to BSC allowances** based on the pipeline of reopener projects to be developed and delivered during the T3 period and beyond. This could be a percentage uplift based upon the capex of these future projects, funded at the point of submission of an Eligibility to Apply letter or equivalent. Our current view is that a relatively low uplift rate (c.1-2% of forecast capex as BSC) would be sufficient, but this would depend on the definition of BSC to recover, and the amount of BSCs to recover, depending on the setting of baseline allowances.

With reference to ETQ60. The starting point for this must be establishing gross cost for indirects across the RIIO-T3 period, this will provide Ofgem with a view on the total BSC costs to deliver CP2030 and provide data to design a scalar mechanism for growth uplifts during T3. Ofgem can then set the parameters in confidence, if Ofgem have a complete view of BSC costs and recovered costs fall within the efficient envelope of total predicted BSC costs.

This would enable for much more predictable recovery of additional BSCs compared with Ofgem's current reopener design. This would give TOs certainty and confidence to implement resource plans to scale up to deliver the required growth in infrastructure required during the T3 period. It is mechanistic, therefore reduces regulatory burden and also is flexible such that projects which do not go ahead, or amended in scope can be adjusted for automatically rather than requiring complex clawbacks.

We consider CAPEX as the most appropriate scalar, as a proxy for network growth that feeds into MEAV. This also resolves the lagging nature of MEAV and allows growth in CAPEX to feed through into BSCs at an appropriate time. We do not consider FTE is an appropriate scalar.

We propose to include a deadband of + or minus 10% around the level of BSCs, so consumers and TOs remain protected from significant cost overspends or cost underspends relative to the rate of capex. A true-up mechanism could then be used at closeout. The diagram below, Figure 5 illustrates how the mechanism would work.

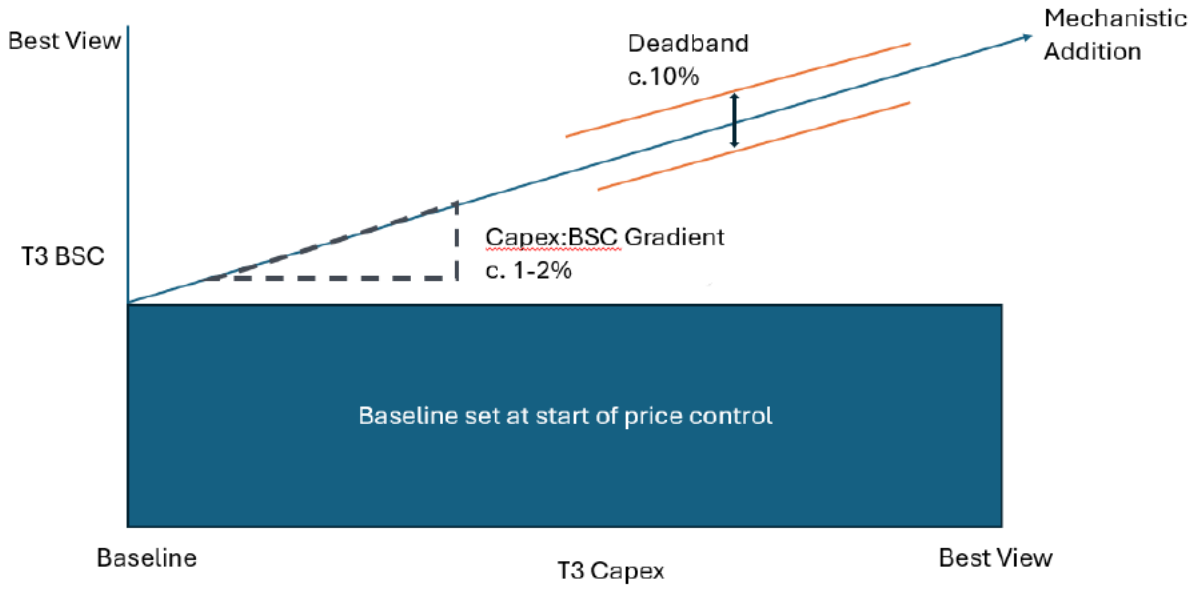


Figure 6: ETQ61 BSC adjustment mechanism illustrative example

We would welcome engagement with the specifics of design and calibration of this mechanism.

ETQ62. Do you agree with our approach to MEAV? What do you think we could do to improve its robustness?

We disagree with Ofgem's approach to MEAV. Although we agree a consistent set of unit rates should be applied and we view that the unit rates Ofgem has proposed are broadly acceptable, the MEAV values used in the RIIO-3 modelling suite are inappropriate as they do not take into account the total value of our network by the end of the T3 period. In addition, we disagree with Ofgem not utilising the full list of assets each TO provided under the 'MEAV TO Template' as there are significant omissions which drastically impact the overall MEAV figures.

In calculating MEAV, Ofgem has taken a narrow view of the size of our network to the end of the T3 period that excludes ASTI, LOTI and other UM projects. These assets are significant in volume, value and complexity meaning that the MEAV currently used in the modelling is not reflective of the actual value of the network. MEAV is also lagging in nature as a result of assets not being added to the Asset Movements tables until energisation, which in many cases for mega projects can be many years in the future.

This means any modelling which uses MEAV as a proxy of growth is not reflective of the real level of growth each TO will see during the period. In our view this is irrational as this is supressing the level of indirects allowances being provided through the CAI/BSC modelling as the MEAV calculation is not taking into account the level of growth.

Further to this Ofgem has made some adjustments in the formulation of a new 'MEAV' figure:

1. It has made adjustments to TOs asset volumes which it is not in an appropriate position to make, resulting in an un-reflective MEAV figure for the scale of investment planned in the T3 price control. This includes removal of T2 crossover schemes from MEAV which means no indirects are being provided for schemes which are being cost assessed through the PAM.

2. Applied its own assumptions of assets TOs will energise within the price control period, rendering any 'true' MEAV figures incomparable with each other unless Ofgem has made the aforementioned assumptions to each TOs dataset.
3. Exclusion of certain assets (e.g. HVDC etc.), will be a fundamental and critical component to facilitate Net Zero and the Governments CP2030 plan.

The set of assets used to calculate MEAV is also not representative of the assets we will need to deliver to enable CP30. In particular, the increasing deployment of intermittent renewables will require the installation of a number of synchronous compensators and harmonic filters on our network – these are sizeable assets which are expensive to operate.

As a minimum, we expect Ofgem to correct the errors in the MEAV calculation by modelling CAI/BSC coefficients using best view MEAV, including all assets connected to the network, with no arbitrary exclusions.

ETQ63. Do you agree with our approach to operational training? What else should be considered within this approach?

We welcome Ofgem's use of a separate assessment for operational training as RIIO-T3 represents a time of significant growth for our business and network, and the application of a backwards-looking trend or regression analysis would have been inappropriate. In our RIIO-T3 submission we submitted proposals to develop a new Training Campus, which will enable our current plan for operational training and delivery costs will progress through the property reopener.

ETQ64. Do you agree with our approach on insurance? What methodological improvements can we make?

We disagree with Ofgem's approach to benchmarking insurance costs across TOs. Each Transmission Area represents a unique combination of geography, technical design and risk background, and each TO has differing insurance strategies. It is inappropriate to benchmark TOs in this subcategory due to the significant differences in asset networks, risk profile and decisions around insurance strategy impacting on level of insurance cover. For SSEN-T, we have significant lengths of subsea cable assets which result in greater insurance premiums given the level of risk associated with these assets.

Ofgem must assess each TO's insurance approach qualitatively but form a common view in terms of level of cover and expectations and around how insurance policies should interact with costs within the price control and uncertainty mechanisms.

We shared our concerns and perspectives during a bilateral call with Ofgem on 08 August 2025. We have also instructed our Insurance Broker to gather the necessary data to justify the calibration of insurance into several categories. We have this data ready to share and would appreciate further engagement with Ofgem regarding the specifics of designing and calibrating insurance costs.

ETQ65. Do you agree with our approach to pension scheme admin and PPF levy? What else should be considered within this approach?

We do not have any costs in this area and have no comment on Ofgem's assessment approach.

ETQ66. Do you agree with our assessment approach for Physical Security? If not, how should we assess these costs?

We submitted an EJP covering our planned Physical Security expenditure in RIIO-3. We agree with Ofgem's separate assessment of this EJP given the bespoke nature of the costs. We largely agree with Ofgem's assessment approach and encourage the use of qualitative assessment where costs are not benchmarkable.

However, Ofgem should revisit the materiality thresholds for the qualitative assessment to ensure that items having less materiality are automatically approved; so that Ofgem can maintain focus on areas having high materiality.

ETQ67. Do you have any views on our engineering assessment of the thematic issues we have identified?

We welcome Ofgem's structured and transparent approach to the engineering assessment of thematic issues. This enhances traceability and integration with cost assessment processes. The emphasis on strategic investment within non-load related expenditure (NLRE), and the interaction between NLRE and load related expenditure (LRE), is particularly relevant given the scale of CP2030-driven reinforcement and the need to maintain asset health during this transition.

We agree with the importance of retaining optionality in design, especially in light of long asset lifespans and evolving system needs. The concerns raised about unextendible substations, and low-rated equipment, are valid. In principle, we support the proposed alignment with NESO's Engineering Transmission Design Principles (ETDP) and the potential for regulatory incentives tied to standardised, future-proofed designs and would welcome visibility on how this can be achieved.

On data provision, we noted the recognition of improved submissions, particularly from NGET, and acknowledge the need for continued enhancement in data quality and completeness across all TOs. The differentiated approaches to NLRE—site-based versus targeted—are well captured, and we agree that clarity on historical investment strategies is essential to avoid double funding and ensure deliverability.

Regarding gas insulated switchgear (GIS), we share Ofgem's concerns about long-term flexibility, OEM tie-in, and to some extent F-Gas usage (refer to ETQ69). While GIS may be justified in specific contexts, we support the call for robust optioneering and whole-life cost analysis, with a clear path to futureproofing and emissions reduction. We undergo technology optioneering in the early stages of our designs and for the reasons Ofgem have stated, focus on air insulated switchgear (AIS) as a preferred solution.

We encourage continued collaboration to refine the assessment framework and ensure it supports efficient, resilient, and future-ready network development.

ETQ68. Do you agree with our approach to maintaining future optionality through ensuring licensees use extendible designs?

We find Ofgem's draft determinations lack sufficient detail to answer this question fully. While we support optionality and extendibility in principle, we do not agree with limiting choices to a set of predefined Ofgem options, as this approach may not suit all sites and overlooks broader planning and consent issues. Additionally, Ofgem's position on strategic land further restricts the optionality available to network

companies. Optionality starts with securing land, and without the ability to do this in a timely manner, ahead of need, sites risk becoming sterilised by third parties and speculators.

Many assets are designed to have minimum design life of 40 years (except for electronic devices), however operational life can be longer than this through good operational management and taking account of the environment where the asset is located.

TOs have historically been constrained in fully considering future optionality in previous price controls because of a drive to keep bills as low as possible. We consider optionality within our engineering design decision making but is weighted against other factors. With Ofgem support for this we can put more weight on optionality, if Ofgem provide clear statements that they are willing to support future optionality through the price control.

ETQ69. Do you agree with our drive to reduce the use of F-Gases as far as possible and do you agree with our intent to fast track selected AIS solutions to minimise the use of F-Gases now and in the future?

First addressing the reduction in the use of F-Gases: We do not agree with Ofgem's proposed drive to reduce the use of F-Gases as far as possible. We are however completely supportive of, and already aligned to, a drive to reduce the use of SF6 as far as possible – this applies to both gas insulated switchgear (GIS) and air insulated switchgear (AIS).

While we recognise the legislative and other risks associated with the use of low global warming potential (GWP) F-Gases, such as C4-FN mixtures (GWP ~ 500), they are an important technology for the minimisation of further use of SF6. In particular, for situations where GIS is appropriate at 275 kV or 400 kV in the short-term, but this is also valid for GIS lower voltages, and, to some extent, for AIS. Furthermore, again especially for GIS, it is as yet unclear if F-Gas free solutions present an overall environmental benefit as compared to low GWP F-Gases. Finally, at a time of constrained supply chain, it is important to have all SF6 alternatives available.

We therefore plan to explore, in conjunction with the wider industry, a mechanism that allows robust, transparent and fair comparison of the differing costs and environmental impacts of competing technology solutions to replace SF6 – until such time as this can be done, the priority is avoiding SF6.

Addressing the use of AIS: We are supportive of the principle to prioritise the use of AIS, while recognising that GIS is more appropriate to some circumstances; there are multiple reasons for this rather than just a minimisation of F-Gases.

We believe that the focus should remain on the environmental performance and whole-life cost of the solution, not the switchgear type. While AIS does offer greater modularity and resilience to future changes, GIS can also be justified where space constraints or project economics demand it—provided the environmental impact is mitigated and future flexibility is considered.

Our approach ensures that we remain aligned with our environmental commitments, regulatory obligations, and the long-term interests of the electricity transmission network. SSEN-T's mission supports the drive to reduce SF6 and encourages the fast-tracking of solutions that demonstrably achieve this goal. However, we recommend that technology selection be based on environmental and strategic merit rather than a blanket preference for F-gas free AIS.

ETQ70. Do you agree that the TIM in RIIO-ET3 should have a primary focus on risk management and a secondary focus on cost efficiency, and that doing so would be in the interests of consumers?

No, we strongly disagree with Ofgem's position that the TIM should have a primary focus as a risk management tool, with efficiency as a secondary focus. This is a fundamental change in policy between price controls and introduces discrepancies between the RIIO regime for Gas, Distribution and Transmission. Ofgem should revert to precedents set across the RIIO framework and use simple and pragmatic reopeners and ex-ante allowances to manage risk. In our view the TIM should have a primary focus on efficiency.

Ofgem has suggested implementing the TIM within the broader framework to serve as an alternative to other risk management tools, including RPEs, Risk & Contingency, and reopeners. This is wholly inappropriate and fundamentally changes the risk profile of the settlement which has implications on the wider financial parameters to ensure that investors are compensated for this increased risk. This response should be read in conjunction with our response on OVQ18 (RPEs), ETQ33 (Volume Driver) and ETQ50 (Risk and Contingency).

Background

During previous price controls, the Totex Incentive Mechanism (TIM) was primarily implemented to drive cost efficiency with the aim of reducing consumer bills. This approach operates under the assumption that most costs are within a network company's control, and that at the time allowances are set, there is reasonable confidence these reflect the efficient cost of undertaking activity.

Within our Business Plan, we advocated for a lower TIM of 10% to reflect the volatile market in which we are exponentially growing the network. This was to help mitigate windfall gains and losses above or below the price adjustment mechanisms that were proposed alongside a lower TIM. Our plan was explicit on the need for reopeners to manage market volatility, a pay-as-you-go model for connections work, and ex-ante allowances to reflect supply chains decreased appetite to carry risk and contingency. This approach mitigated risk and retained TIM in a primary role as a strong efficiency incentive.

Quantifying Risk Exposure

According to Ofgem, TIM should be employed to manage three main categories of risk:

- Supply chain cost volatility and market-driven cost exposure associated with uncontracted project.
- Delivery risks and contingency across the ex-ante project portfolio, encompassing both design and construction phases.
- Portfolio and unit cost risks arising from uncertainty in load and connections projects, including related indirect costs and volume driver projects.

Our December forecast estimated total costs associated all risk outside of our control at £347m, addressing supply chain cost volatility as well as delivery risks and contingency. We did not include volume driver risk, as our pay-as-you-go proposal for connections would result in full funding for those activities. When including risk from the Ofgem proposed volume driver metrics, total potential exposure reaches £447m. Ofgem has allocated an ex-ante allowance of £66m, leaving a potential exposure of £381m.

Our overall totex outperformance for RIIO-T1 was 4.5%, returning about £75m to consumers. For RIIO-T2, we expect an overspend of £31m. We believe that the level of uncertainty in RIIO-T3 exceeds what the TIM can effectively mitigate, when the scale of the risks we face is compared to the performance potential.

Limitations of Ofgem's Approach

Ofgem has not adequately distinguished between efficient spending and overspending, nor fully considered how TIM affects incentive performance, financeability, and investability. A clear efficiency

incentive is essential for consumer interests, and blending risk with efficiency undermines cost control and may lead to windfall losses for consumers during the control period if risks materialise.

We do not believe Ofgem's holistic approach to risk, including moving the primary focus of TIM to being a risk management tool rather than an efficiency tool, is appropriate for a period of continued market and cost volatility. Ofgem intends to utilise TIM to manage risks and costs outside the control of network companies within the Electricity Transmission (ET) sector, while retaining the historic approach for Gas Transmission and Distribution and Electricality Distribution. This means that the ET sector potential incentive performance is reduced compared to peer companies across the sector. There is no rationale for different approaches given the challenges facing by the ET sector.

The financial settlement does not recognise the change in approach, and structuring TIM this way limits incentive performance, weakening the overall returns available to companies. Ofgem claims stepped TIM protects Transmission Owners from high-cost events outside their control by providing full compensation, but some costs would remain unrecovered, reducing efficiencies and weakening incentives.

Although Ofgem considers RIIO-ET3 policies, such as the closeout process for potential adjustments, to be mitigating factors, there is no assurance that allowances will be revised as needed. Consequently, the current framework cannot be considered investable with the TIM used as proposed.

Proposed Solution

In our plan and other submissions to Ofgem we have demonstrated that

- Supply chain cost volatility is material and is largely outside of our control and market constraint on labour will dominate the T3 period.
- Development risk and delivery risks endure, with our supply chain unwilling to take on risk as the cost of mitigation cannot be fully established at this time.
- That there is an inherent portfolio risk (projects are not firm) and unit cost risk (cost cannot reflect rates across the control) for volume driver projects.

Ofgem has failed to have regard to these important aspects of risk faced by TOs, instead opting to introduce a novel approach to the TIM which materially increased the likelihood of TOs' being underfunded and removes incentives to control costs.

We proposed a series of simple reopener and true up mechanism combined with ex-ante allowances which are a much better way to manage the risks above, while maintaining incentive performance. Ofgem should revert to this approach, and we provide further details in OVQ18 (RPEs), ETQ33 (Volume Driver) and ETQ50 (Risk and Contingency).

ETQ71. Do you agree with our proposed 'stepped' design of the RIIO-ET3 TIM, including the values that we have used to set each 'step'?

We agree with the principle of a stepped TIM approach as set out by Ofgem within the Draft Determinations. However, while we accept the principles of a stepped TIM approach, we have major concerns over the application and implementation of the TIM as primarily a risk management tool without additional routes to deal with risk.

Without adequate other mechanisms to deal with risk across the price control, means the TOs will be exposed to shifts in costs that are outside of our control that are not captured by poorly calibrated mechanisms (RPEs), Ofgem cuts to project risk allowances, or alternative mechanisms rejected by Ofgem (Gate 3 Reopener); that instead will be processed through the TIM mechanism, in which the TOs

will be exposed to 25% of that uncontrollable costs, up to 5% of overspend against a significant Totex value.

Based on this fact, we also have material concerns about the stepped RIIO-T3 TIM applying to the ASTI projects, which again fundamentally changes the policy set out with the ASTI framework decision and increases our risk profile and exposure across the RIIO-T3 period (as set out in ETQ72).

Therefore, we disagree with the proposed levels of sharing percentage for each step. This is driven by what areas or projects the TIM applies to within RIIO-T3. The use of 25% for the first 5% of overspend across the ~£30bn investment is inappropriate and should be between 15%-20%.

Finally, Ofgem should recognise that every TO is different and bespoke TIM rates should be applied, dependent on the specific TO requirements and projects.

ETQ72. Do you agree with our proposal to include ASTI within this TIM approach?

No, we disagree with Ofgem's proposal to include ASTI within this TIM approach.

This is a fundamental change in policy from the ASTI Framework Decision, where bespoke TIM rates could be agreed upon at Project Assessment stage to address cost volatility. We believe that Ofgem should retain the option for ASTI projects to have ring-fenced TIM rates with cost performance above 5% being passed through or fully returned to consumers. The table below shows the material impact between including ASTI within the wider 'Stepped TIM' mechanism.

Table 22: ETQ72 ASTI TIM Impact

% Overspend	Totex	Overspend £m	TO Cost £m
2.5%	£17bn	£425	£106
	£30bn	£750	£188
5%	£17bn	£850	£213
	£30bn	£1,500	£375
10%	£17bn	£1,700	£255
	£30bn	£3,000	£450

Individual ASTI projects are bespoke and of material value, with some projects progressing under ASTI equal to individual price controls. Moreover, these projects are accelerating newer technologies and delivery strategies which require more bespoke regulatory mechanisms.

3. SHET Questions

Outputs and incentives

Outputs we propose to accept

SHETQ1. Do you agree with our proposal to introduce these four PCDs for SHET?

No, we cannot accept the proposals until the material errors and necessary clarifications that have been identified in the content of the PCDs, are addressed. We provide detail below and PCD drafting for inclusion in the final determinations in Appendix A: PCD Drafting.

NARM Funding category changes:

In Section 2.6 we disagree that all non-load related schemes delivering lead asset replacement or refurbishment be assigned to Category A1 (NARM Funding Adjustment and Penalty Mechanism). We have demonstrated, in the NARM BPDT Narrative, why the schemes which do not meet the Clearly Identifiable (CI) threshold should be removed from the funding adjustment and penalty mechanism.

This is to prevent windfall gains and losses through the application of the flawed NARM Funding Adjustment and Penalty Mechanism and to remove the uncertainty of whether the project would be treated as a clearly identifiable delivery. The guidance for this process is still incomplete and the treatment of these projects at close out creates a risk to our ability to make the appropriate decisions during the project lifecycle.

In addition to our categorisation of these works as A3, they could be turned into a PCD if it would give Ofgem greater ability to hold us to account for delivering those outputs. Please refer to our response to OVQ4-5 regarding our proposed use of the A3 category and the rationale for considering it the most pragmatic approach under the circumstances.

In our submission of DDQ SSEN059, we noted that several NARM projects originally scheduled for RIIO-T2 have been deferred to RIIO-T3. However, rather than being integrated into the RIIO-T3 NARM delivery, these projects have been assigned to a separate PCD and excluded from NARM assessment. This reallocation appears inconsistent, and no rationale has been provided for the creation of the PCD or the selective inclusion of certain deferred projects. We would appreciate clarification on the criteria used for this decision and its implications for our overall NARM delivery.

We also have concerns about the current structure of the PCDs. Each PCD comprises multiple projects (schemes) that lack interdependency. Each of these projects has unique characteristics, with specific scopes, locations, and delivery challenges – and most of them do not interface with one another in any way. The delivery assessment of one project should not be contingent on the performance of unrelated projects. If the use of PCDs is to be maintained, we recommend that each project be assigned its own standalone PCD. We have provided drafting to support this process.

The PCD approach is prescriptive regarding deliverables. However, this rigidity is not well-suited to projects where there is existing uncertainty around the final asset specification. While that design may change, the same risk benefit would be delivered. Therefore, project assessments should focus on the value delivered rather than adherence to a specific design, which may reasonably change during development.

For broader views on the continued use of NARM in RIIO-T3 and in preparation for RIIO-T4, please see our response to OVQ4-6.

SHNLT2156 (Errochty) project has both NARM and PCD Outputs:

Section 2.7 lists all the non-load core projects which have been included in the NARM A3 category and so have been included in the PCD. SHNLT2156 is not in this list.

However, the Circuit Breaker PCD contains the output *"Replace 1 x 132kV Brush DB145 live tank circuit breaker (CB 705) …"* This CB is associated with SHNLT2156 Errochty project.

This project has been included in the NARM outputs in Table 6 and has been included in the PCD. A project cannot have both a NARM output and a PCD output.

We therefore require this to be removed from Table 6 (Proposed BNRO per NARM asset category) and added to Section 2.7 which specifies the schemes retained as PCD. As explained in the above 'NARM Funding category changes' section of this response, we require this scheme to be recorded as a separate PCD.

Mechanistic and Evaluative PCDs:

We believe that a mechanistic PCDs area not appropriate for these projects presented in Table 7 and the PCDs should be changed to evaluative. The reasons are set out below:

The Circuit Breaker PCDM contains both 33kV and 132kV asset replacements. Therefore, if the output delivered is different to baseline the average cost per CB replacement adjustment is likely to lead to windfall gains or losses through the mechanistic process. An evaluative PCD where the allowance adjustment is compared back to the EJP ask would ensure a fair and proportional adjustment.

The Existing Power Station Works PCDM contains single, double and quad Transformers replacements, 132kV and 275kV Transformers and combination of in-situ and offline replacements. Also of particular note is the bespoke nature of the 275/18KV units required at Foyers.

These projects are all in flight and so whilst it is unlikely there will be a change to the outputs any change in scope will need to have the allowance adjusted evaluatively as a mechanistic approach may lead to disproportional adjustments as the average cost per transformer replacement is unlikely to result in a fair and proportional adjustment.

The Substation PCD contains two projects, one a double transformer offline replacement to a green field site but in a remote location and another, two double transformer replacements, one offline and one in-situ to a very built-up urban location where the existing site requires extensive clearance and demolition. The Clayhills scope also will not be delivered until the end of RIIO-T4 (as per the EJP), which would prevent a mechanistic method from being usable until the end of the T3 even on the T3 scope of works. As such any change to the outputs of these projects could not be adjusted mechanistically and would require an evaluative approach to ensure a fair and proportional adjustment.

Allowance split between Licence Terms:

The SSEN-Transmission Final Charging Methodology sets out how we define and charge for those assets solely required to connect an individual User to the SSEN Transmission System.

The costs for intervening on these Transmission Connection Assets (TCA) are recovered directly through commercial agreements with the customer, with the charging mechanics for TCA stipulated within the Connection and Use of System Code (the contractual framework for connecting to and using the National Electricity Transmission System) and the STC (System Operator Transmission Owner Code which sets out the charges due).

Non-TCA assets are classed as Infrastructure, either Sole Use (H1) or Shared Use (H2) depending on the number of connected parties. The costs for non-load interventions on these Infrastructure assets are recovered through the NARM Mechanism and the wider price control.

Due to the different non-load funding recovery mechanisms available, we have split the assets for the non-load projects in the Cost and Volumes BPDT by flagging the "Licence Term" as EECEt for TCA asset interventions and NARMt for Infrastructure (H1/H2) asset interventions.

For us to make an accurate true up of the costs incurred against the allowances given in the PCDs the allowances must be separated into their respective licence terms as set out in the C&V BPDTs.

We have highlighted the elements of scope that are attributable to the different licence terms in the **proposed PCD drafting** annex and we ask that the PCD is reconcilable back to this split in both allowance (costs) and scope (volumes). We also request that the true-up mechanism for the EECEt related costs for non-load schemes and assets is clearly referenced in the SHET Annex and any other relevant licence documents. That is relevant for both PCD and NARM related non-load schemes.

Clarifications / Improvements to scope listed in PCDs:

The most significant clarification is that it stated in the Willowdale/Clayhills EJP that; *"The project is due to be fully energised by July 2035, with the Phase 1 (2x 120MVA Willowdale GTs and switchgear) to be completed and energised by February 2031."* Therefore, a delivery date for the full scope of works by 31st Mach 2031 is unachievable.

We would propose that the Willowdale Scope retains a 31st March 2031 date and the Clayhills Scope a date of 31st March 2036. This is in line with the EJP and the complex sequence of events that has been planned for this project.

Other corrections are minor, to improve clarity and ensure that the PCDs are robust and as clear as possible. Please see our **proposed PCD drafting in Annex A**:

Project delivery milestones:

In Table 7 (Proposed SHET RIIO-ET3 PCDs), Ofgem proposed to include "*Energisation scheduled for 2027*" for the Kilmorack and Aigas project outputs. However, we ask if this requirement can be removed from the PCD. We believe that a year of energisation does not constitute 'Output(s) to be delivered'. Moreover, despite the project plans provided in our EJPs being our current delivery plans at the time of submission, there are factors beyond our direct control that may influence project milestones.

In Section 6.1 (Project Plan) of our EJPs, we mentioned that "*until the project reaches Gate 3 where the commercial agreements have been signed and all consents are in place, the dates are subject to change.*" This applies to all projects for which we submitted EJPs.

We propose and overall delivery date as 31 March 2031 for the RIIO-T3 schemes, with the caveat to the PCD outputs adjustment we proposed above for the Willowdale-Clayhills Substation scheme.

DD Modelled Costs for the proposed PCDs:

Based on Ofgem's response to our question SSEN063, we understand that there are errors in the DD Modelled Costs presented in Table 7 (Proposed SHET RIIO-ET3 PCDs) of the SHET Annex. With this now being noted, we expect Ofgem will make the required corrections ahead of the Final Determinations.

According to the "Summary of consultation position" on page 12 and Section 2.15 of the SHET Annex, as well as the DDQ response to SSEN063, it is our understanding that the DD Modelled Costs in Table 7 represent the 'Baseline cost allowance'. As above, we request that these values be corrected to accurately reflect the latest baseline cost allowances and be free from error in the Final Determinations.

Furthermore, as noted in the first subsection of this response, we recommend that each distinct project listed in Table 7 be assigned a separate evaluative PCD. This would also necessitate the allocation of individual baseline cost allowance values for each project.

Outputs we propose to reject

SHETQ2. Do you agree with our proposal to reject SHET's marine biodiversity EAP commitments?

We strongly disagree with Ofgem's proposal to reject these commitments which are critical to enabling timely delivery of transmission infrastructure. Marine restoration is already an expected component of consenting for specific projects and will soon become a legal requirement across all subsea developments. Delaying investment until these obligations are fully legislated will significantly increase delivery risk, drive up costs, and create bottlenecks in both skills and supply chains.

Delivering Consumer Value

Marine restoration underpins the infrastructure required for net zero by helping ensure projects receive consent on time and avoiding costly delays. Early investment reduces risk and creates long-term value:

- Avoids delay: Consenting authorities are already requiring marine restoration to mitigate impacts. Without proactive action, projects face significant delays.
- Prevents cost escalation: As restoration becomes a mandatory requirement, demand for restoration expertise and resources will rapidly exceed supply. Delaying investment until policy is enacted will inflate costs across the board.
- Secures workforce: Building skills and delivery capacity now avoids overreliance on a small pool of high-cost specialists in the future.

Restored marine habitats deliver quantifiable environmental and economic benefits:

- Economy and food security: Seagrass and oyster beds provide nursery grounds for commercially important fish species, with commercial fisheries contributing £355 million GVA to Scotland's economy and supporting over 10,000 jobs.
- Replicable benchmarks: New York's Billion Oyster Project created over 100 local jobs and planted 100 million oysters across 18 hectares, demonstrating scalability and job creation potential.
- Carbon sequestration: 250 million seagrass seedlings could absorb 2,500 tonnes of CO_2 per year by 2035, worth £680,000 at today's UK carbon price.
- Natural capital: Oyster-seagrass ecosystems are valued at up to £50,000 per hectare annually.
- Water quality: Native oysters filter up to 200 litres of water per day each, improving clarity and reducing harmful nutrient loads.

How our costs have been developed

Scotland's Centre of Expertise for Waters (CREW) estimated a demand for 40–50 million native oysters with a total project investment value, including research, of between €50-€60 million over the next 3 years[7]. Based on our proposed £18 million to develop the techniques and infrastructure to deliver 20 million oysters we align with CREW's indicative rate per oyster[8]. Our cost of £0.90 per oyster (including delivery costs) is significantly lower than smaller scale efforts in Scotland [redacted]

[7] CREW_Towards an Economic Value of Native Oyster Restoration in Scotland 19_22_Oct v2.pdf

[8] Scottish Association of Marine Science (SAMS), (2025), Native oyster review (executive summary) Native-Oyster-Restoration

[redacted] In contrast, some offshore wind compensation schemes report costs of up to €1,000 per oyster[11] [12].

Costs of our seagrass restoration proposals are based on the £2.6m million per 17 hectares rate previously approved by Ofgem in RIIO ED2, and on advice from the Scottish Association of Marine Science (SAMS) on the restoration approach most likely to be successful[13]. This project presents an opportunity to restore up to 2500 hectares dependent on the technique used.

We have costed proposals for the research necessary to utilise Distributed Acoustic Sensing (DAS) and other acoustic monitoring techniques for ocean health monitoring, utilising globally recognised specialists. The research element of £1.25 million is accompanied by an allowance for vessel time, test cable and DAS equipment.

We costed proposals from a leading academic institute to develop and implement a multi-site multi-year programme for £4.2 million with an allowance to cover facilities and content for attendees.

Regulatory and Planning Requirements

Marine restoration is not speculative. It is becoming a regulatory necessity. In addition to the National Marine Plan 2 (NMP2), three policies now in late-stage consultation will make restoration mandatory:

- UK offshore policy for waters beyond 12 nautical miles
- Scottish nearshore policy for waters within 12 nautical miles
- A marine restoration policy tied to the Scottish Biodiversity Strategy to 2045, requiring accelerated regeneration

Once enacted, these frameworks will enable and require offsite compensation (e.g. marine restoration) for all offshore infrastructure, including transmission developments. Critically, this includes retrospective application to projects already consented but not yet built, bringing many of our projects firmly in scope. Affected projects include:

Table 23 - SHETQ2 Marine Projects

Project	Status	Comment	In scope
Dunoon OHL	Development	Expected shoreline monitoring depending on final design	Yes
Skye OHL	Advanced development	Expected shoreline monitoring post removal of access - within Designated site	Yes
Western isles HVDC	Advanced development	Impacts MPA and SAC, likely comp measures required	Yes
Orkney HVAC	Advanced development	Costs in PA not yet determined	Yes
Eday HVAC	Development	Within protected sites	Yes
Yell HVAC	Development	Within protected sites	Yes
Shetland 2 HVDC	Development	Within protected sites	Yes

[9] WWF Scotland. (2025). Restoration Forth update. Internal partner communication.

[10] Restoration Forth | WWF

[11] Rewilding Europe. (2024). Oyster Heaven restoration costs. https://rewildingeurope.com/news/oyster-restoration-initiative-receives-loan-from-rewilding-europe/

[12] Global review of marine restoration projects and funding sources - UNEP-WCMC

[13] Scottish Association of Marine Science (SAMS), (2025), Seagrass Literature review (executive summary) seagrass-supporting-restoration-through-research

Spittal 2 Peterhead HVDC	Advanced development	Within Protected sites	Yes
Eastern Green Link 2	Build in progress	Within protected sites - potential UOLI	Yes
Eastern Green Link 3	Development	Within protected sites	Yes
Eastern Green Link 5	Development	Within protected sites	Yes
Offshore Grids 2	Development	Likely impacts protected sites	Yes
Western isles Grid	Development	Likely impacts on PMF	Yes
Shetland 1 HVDC	Built	Within protected sites, crosses MPA, long term monitoring and potential restoration required	Potential
Caithness Moray HVDC	Built	Within protected sites, crosses MPA, long term monitoring and potential restoration required	Potential
Kintyre Hunterston HVAC	Built	Long term monitoring	No

These changes are being accelerated to meet CP2030 targets. Competition for suitable restoration sites will increase rapidly, especially with the growth of offshore wind. It is essential that SSEN Transmission is enabled to act now, securing opportunities before the market tightens and costs increase.

We are deeply familiar with these developments, having represented the subsea cable industry during the drafting of regional marine plans. Licensing authorities including MD-LOT and Shetland Islands Council are already integrating these commitments into consenting conditions.

Failing to act now will risk non-compliance, delay network delivery, and expose consumers to higher costs.

Marine Restoration as a Core Network Activity

Marine restoration is a core network activity where it directly supports the delivery of capital infrastructure projects. Our approach, outlined in our Sustainability Action Plan and supplementary submissions (SQs SSE092, SSE141), is to work with expert partners, not build internal delivery teams. This collaborative model ensures quality, drives efficiency, and strengthens the wider restoration sector, to the benefit of future SSEN Transmission projects and the broader offshore energy sector.

Our commitments align with Ofgem's biodiversity and economic growth duties and broader obligations under the Environment Act and Climate Change Act.

Deliverability

Our approach is underpinned by evidence, expert partnerships, and targeted risk mitigation. Ofgem states that the research and development element of SSEN Transmission's proposal "…suggests there may be a deliverability risk for the overall output." We disagree with this assertion and, as noted above, propose that research and development are an essential step in delivering successful marine restoration at scale in a way that is both cost effective and replicable. Marine restoration efforts have been implemented at scale elsewhere and Scottish marine restoration efforts to restore oysters and seagrass have been successful at a small scale.

Our proposal for a Marine Habitat Restoration Academy aims to strengthen the deliverability of our restoration commitments. It will involve:

- Establishment of six regional training programmes across coastal Scotland, delivered with Scottish Association for Marine Science (SAMS Enterprise) SRUC, and others.
- Accredited course delivery (SVQ or equivalent) in collaboration with leading institutions, creating a skilled, locally embedded workforce

- Designed to address Scotland's current lack of capacity and ensure we meet future legislative obligations

Scotland currently does not have the workforce needed to deliver marine restoration at scale. Without the Academy, future delivery risks will increase sharply. Investing now reduces reliance on expensive consultants, supports coastal job creation, and helps meet just transition goals.

Community and Stakeholder Alignment

Feedback from affected coastal communities strongly supports marine restoration as part of fair and responsible infrastructure delivery. The societal benefits have been assessed by the SAMS[14] and include:

- Nature connectedness: Enhancing physical and mental wellbeing through access to restored marine environments
- Social cohesion: Strengthening local identity and increasing support for net zero infrastructure
- Cultural revitalisation: Empowering communities to participate in environmental stewardship, aligning with the Community Empowerment Act and Wellbeing Economy framework

Involving communities builds trust, secures social licence to operate, and reduces opposition that could otherwise cause delay.

SHETQ3. Do you agree with our proposal to reject SHET's Species and Habitat UIOLI?

No, we do not agree with the proposal to reject the Species and Habitat UIOLI. This fund delivers meaningful consumer value by enabling strategic enhancements and addressing a critical gap in support for specific species and habitats in areas affected by our projects. It offers tangible benefits to consumers within our operating area while allowing us to optimise the environmental benefits in our projects.

Delivering Consumer Value

The Species and Habitat UIOLI fund represents an opportunity to provide tangible benefits to consumers. By supporting targeted environmental enhancements, it directly contributes to healthier ecosystems, increased access to nature, and improved community wellbeing. Strategic investments in nature restoration around infrastructure projects help reduce environmental risks, strengthen climate resilience, and foster local support for essential upgrades. This approach ultimately translates into lower long-term costs, greater project efficiency, and sustainable outcomes for consumers.

Illustrative examples, such as figures from The Green Book, highlight the real-world impact: nature-based recreation spaces can offer welfare values up to £120,000 per hectare, and each physically active visit to greenspace may yield health benefits of up to £14 per individual. These metrics underscore the broad societal gains enabled by the fund. Furthermore, healthy habitats deliver ecosystem services—including carbon sequestration, flood mitigation, climate regulation, and pollination—which protect communities and reduce future adaptation costs, ensuring lasting consumer value.

The Species and Habitat UIOLI fund is also essential for maintaining SSEN Transmission's social licence to operate, especially in sensitive or protected areas where stakeholder scrutiny is high. Of the 2,000+ ASTI consultation responses received, 69% mentioned the environment, nature or biodiversity. Public

[14] Scottish Association of Marine Science (SAMS), (2025), Social Value of Seagrass and Oysters. Provided as a confidential annex T3BP-DD-023.

concern is consistently high: 71% of UK adults believe not enough is being done to protect the environment for future generations[15].

Regulatory and Planning Requirements:

The fund aligns with national and international regulatory frameworks and statutory duties. It enables SSEN Transmission and Ofgem to fulfil obligations such as the Biodiversity Duty and Net Zero Duty, driving progress toward biodiversity restoration and climate objectives. In Scotland, the fund supports key targets: achieving "Nature Positive" status by 2030 and restoring biodiversity by 2045. It is designed to integrate best practices in nature restoration[16], reflecting both policy ambitions and planning requirements.

In addition, the fund complements Ofgem's biodiversity and climate mandates, as well as broader government strategies and frameworks[17], such as the Scottish Biodiversity Strategy to 2045[18], the UK's 2030 Strategic Framework for International Climate and Nature Action, the Global Biodiversity Framework Target 2, and the EU Corporate Sustainability Reporting Directive. The Species & Habitat UIOLI provides the flexibility and focus needed to align infrastructure delivery with evolving regulatory expectations—ensuring projects meet the standards required for long-term environmental integrity.

Differences from Other Mechanisms

Distinct from Biodiversity Net Gain (BNG):

While Biodiversity Net Gain is site-specific and delivered through planning conditions, the Species and Habitat UIOLI enables broader, strategic actions that fall outside BNG's scope. BNG is limited by time delays—net gains are delivered only at the end of restoration periods—whereas UIOLI supports more immediate interventions. It funds species-specific support (e.g. golden eagle nest creation, bat population surveys), research (e.g. studies on collision risk with overhead lines), and landscape-scale connectivity efforts (e.g. creating ecological "stepping stones"). These initiatives are essential to meet stakeholder expectations and enhance ecological integrity but are not covered by BNG or Irreplaceable Habitat Compensation.

Distinct from Landscape Enhancement Initiative (LEI):

The LEI focuses on mitigating visual impacts within National Parks and National Scenic Areas, limiting its geographical reach and impact. In contrast, the Species and Habitat UIOLI is designed for a wider operational footprint and addresses a broader range of restoration needs, including species conservation and landscape connectivity in areas not covered by LEI. This broader scope is vital for addressing biodiversity gaps and supporting communities beyond designated scenic zones.

See our response to ETQ23 for a breakdown of the differences between LEI, Species and Habitat UIOLI and BNG funded interventions.

Deliverability and Strategic Impact

The fund is specifically designed to address existing gaps in terrestrial nature funding. Its strategic approach enables SSEN Transmission to deliver on its environmental commitments at scale, providing coordinated and effective restoration across its entire network. By supporting early-stage research,

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[15] Wildlife and Countryside

[16] Reimagining Conservation Action through Rights-Based Governance: How the IUCN CEESP NRGF Advances Assessment, Monitoring, Redress and Reconciliation - Blog | IUCN

[17] UK Government's 2030 Strategic Framework for International Climate and Nature Action, Taskforce on Nature-related Financial Disclosures, Science Based Targets Network: Nature Targets, EU Corporate Sustainability Reporting Directive (CSRD)

[18] Scottish Biodiversity Strategy to 2045 - gov.scot

targeted conservation measures, and efficient restoration planning, the fund helps avoid costly project delays and reduces mitigation expenses.

The Species & Habitat UIOLI is also cost-effective. Compared to the £11.6 million allocated to LEI for National Parks, UIOLI will deliver high-value outcomes across a larger area at a lower cost per kilometre. Its flexibility supports innovation, attracts complementary investment, and delivers ecological and operational benefits that reinforce project deliverability.

Business Plan Incentive (BPI)

SHETQ4. Do you agree with our view that SHET passed all the minimum requirements and as such are considered to have passed Stage A of the BPI?

Ofgem's assessment of our Business Plan against Stage A of the BPI results is the correct outcome.

- Ofgem's assessment for Stage A of the Business Plan Incentive (BPI) was ultimately correct, but the additional comments were unfounded, inconsistent, and risked undermining the process.
- There was a lack of clarity and consistency from Ofgem regarding interaction with Stage C; Ofgem criticised the business plan for not including documents and data they previously stated were unnecessary.
- While the company passed all minimum requirements for Stage A, Ofgem's flawed supplementary commentary has negatively impacted the company's reputation.

We are disappointed with Ofgem's supplementary comments that are unjustified, inconsistent and risks undermining the BPI assessment. Ofgem stated in its SSMD "*Each minimum requirement will be assessed individually on a pass/fail basis*" and in coming to a view of whether the minimum requirement was achieved, is required in law to undertake its decision with regards to reasonableness and proportionality. Ofgem rightly acknowledged in the SSMD that judging the materiality of a minimum requirement in relation to overall completeness is, by nature, a subjective exercise.

Ofgem has circumvented this approach and suggested a third outcome of the Stage A assessment, which is a "*technical failure*" in "*discrete areas*". Ofgem has attributed further categories to objectives, which results in further subjectivity across the BPI – which as a framework was already worryingly subjective. This error and approach of re-designing the BPI and re-interpreting the aim and purpose of the BPI is present in Stage A, Stage B and Stage C, needs to be rectified at Final Determinations.

Ofgem's Stage C assessment includes criteria that only relevant information is to be submitted as part of the Business Plan. The Business Plan Guidance provided no clarity on what relevant information is – other than *"relevance of the information provided*" in section 9.43 - and instead Ofgem appeared to have taken its own assessment of relevance. Ofgem is therefore wrong to criticise us for its lack of clarity and detail within the Business Plan Guidance.

In any event, Ofgem is factually wrong in its statements in paragraphs 3.4 to 3.6. Through our engagements with Ofgem, we directly asked whether the additional documentation referenced by Ofgem in 3.4 should be submitted as part of our Business Plan. Ofgem responded that it was not necessary to do so. On that basis, and accounting for the relevance criteria in Stage C, we considered that the appropriate approach was to signpost the additional information to Ofgem. It is inconsistent for Ofgem to use relevant documentation as a criterion for Stage C and then criticise our Business Plan for seeking to reduce the burden on Ofgem by not including information which Ofgem themselves had stated was not necessary to be submitted.

SHETQ5. Do you agree with our assessment results for SHET against Stage B of the BPI?

Ofgem's Stage B assessment of the Business Plan Incentive is materially and methodologically flawed. Ofgem's errors are substantive. It fails to achieve Ofgem's stated objectives for Stage B, applies irrational methodologies, fails to have regard to the weaknesses of its econometric modelling and results in irrational outcomes. Ofgem's errors are not matters of degree but matters of principle.

Ofgem's Stage B BPI assessment consists of two distinct elements. First, a comparative assessment in which Ofgem uses quantitative, comparable scoring to rank the efficiency of each company's cost submissions. Rewards and penalties are set directly based on these efficiency scores, consistent with RIIO-T2 precedent. Second, a bespoke assessment in which certain costs are assessed on their own merits rather than comparatively. All companies could, in principle, be rewarded equally for well-justified bespoke costs, but the maximum rewards or penalties are proportionately lower.

Comparative Cost Assessment

In selecting cost categories for comparative assessment, Ofgem chose CAI, BSC and Insurance. However, Ofgem acknowledges that these submitted cost categories are not directly comparable as across the three TOs, there was not a uniform approach taken in reporting forecast expenditure for CAI and BSC for the RIIO-ET3, with NGET submitting CAI and BSC on a manifestly different basis than SPT and our own submission. Ofgem correctly identifies that this inconsistency…undermine[s] the integrity of the benchmarking exercise and bias the results.

In setting an efficient benchmark through the comparative assessment, Ofgem has treated a manifestly different approach to forecasting by NGET as an efficiency gap. This is an error that undermines the validity of the comparison.

For CAI, the model produces a 240% gap between the most and least efficient TOs, indicating omitted variables or missing data rather than genuine efficiency differences. Ofgem must have regard to efficiency scores being based on a reasonable range genuinely attributable to efficiency, not distorted by flawed modelling or inconsistent data. It is irrational for Ofgem to consider this range being objectively attributable to efficiency.

Ofgem is proposing setting an efficiency benchmark for Stage B of the BPI based on incorrect inputs and flawed modelling. Given the defective data basis, modelling errors and inappropriate benchmark setting, Ofgem cannot rationally conclude that cost differences between our CAI and BSC submissions and NGET's are the result of inefficiency. The comparative assessment relies on manifestly different cost submissions, historical data applied to forward-looking costs, and irrelevant models. The result is illogical and irrational and Ofgem must not set rewards or penalties based on a flawed assessment process.

Bespoke Cost Assessment

Ofgem's approach to the bespoke assessment is also materially flawed. Ofgem's basis for the bespoke assessment is neither sufficiently clear nor reasonable and purports to involve an "*in-the-round*" assessment, while not outlining what an in the round assessment means in operative terms. This is a fundamental defect that undermines the bespoke assessment.

Ofgem's assessment is entirely subjective and flawed, with little clarity on how Ofgem has reached its outcome either through a holistic qualitative judgment or a strict quantitative calculation, leading to Ofgem's arbitrary application of outcomes.

The Business Plan Guidance failed to give an adequate explanation of what Ofgem constitutes "*appropriate evidence*" or give a distinction between "*robust*" and "*adequate*" justification. Ofgem has also blurred the boundary between Stages B and C. Ofgem stated that poorly justified commitments affect Stage C, not Stage B, yet Stage B itself includes penalties for "poor justification." [Paragraph 9.31]. This is

inconsistent and risks double-counting or arbitrary allocation of penalties. Ofgem's errors in approach have the effect of re-designing the BPI and re-interpreting the aim and purpose of Stage B of the BPI.

Below are the areas where Ofgem's errors are most prevalent:

Business Support Costs: IT & Telecoms and Non-operational Capex: IT & Telecoms

Ofgem assessed the quality of the cost evidence in our Business Plan for this category as insufficient and cited the disallowance of costs following a qualitative review. The rationale for Ofgem's qualitative assessment of our IT&T submissions reflects the approach outlined in Ofgem's own ITT Final Report. The RAG methodology uses a set percentage for allowable expenditure, though no explicit justification for the chosen figure is provided. The flawed RAG calculations were then used arbitrarily on BSC costs to reduce our ask, therefore incorrectly linking capex spends with ongoing running IT costs. Incorporating this assessment within Stage B of the BPI is flawed as the underlying costs associated with these investments are not assessed in any meaningful way and Ofgem should not use a flawed process to set a BPI penalty or reward.

Non-Load Related Capex: Replacement

Ofgem recognises the quality of the information submitted as part of our Business Plan in this category but has wrongly assessed that the unit costs and risk submissions are poorly justified and are comparatively high. In summary, the asset category costs include three atypical projects that should be excluded from any assessment on a comparative basis due to their context and circumstances being atypical and as a result their associated costs cannot reasonably be subject to any comparison. We have provided detail on atypical projects in our non-load errata paper (T3BP-DD-012 Non-Load Errata) for

Peterhead Circuit Breaker Replacement – SHNLT2163

Foyers Power Station – SHT200698

Whistlefield Dunoon – SHNLT202

Each of these projects is unsuitable for inclusion in any general assessment of asset category costs on a comparative basis. Ofgem should account for these factors.

Non-Load Related Capex: Refurb Minor

Ofgem considered the quality of the information submitted as part of our Business Plan in this category as fair and has wrongly assessed that the unit costs are poorly justified and are comparatively high. Ofgem has failed to have regard to the nature of these projects being atypical and unsuitable for a direct industry comparison.

SHETQ6. Do you agree with our assessment results for SHET against Stage C of the BPI?

Ofgem's Stage C assessment of the Business Plan Incentive is flawed, and its outcome is unfair. The Stage C scorecard against which our Business Plan Commitments are assessed is inherently ambiguous, lacking clear definitions or criteria, which has led to a subjective and inconsistent approach. Instead:

- Ofgem should ensure the Business Plan Incentive (BPI) assessment uses clear, objective criteria rather than ambiguous, subjective measures, and avoid retrospective changes to guidance or criteria.
- Ofgem must properly recognise both the ambition and sustained high performance demonstrated in our business plan commitments, including environmental initiatives and stakeholder engagement, rather than dismissing them as unambitious or static achievements.

- Ofgem should not penalise companies for following existing guidance regarding baseline funding submissions and should account for justified project-specific factors and industry-wide uncertainties within their evaluation.

Ofgem has relied on undefined descriptors such as "highly ambitious" and "significant" without any objective thresholds or baselines, failing to provide a consistent and transparent framework for companies to follow. Ofgem has expressly justified this approach, suggesting that these form a "qualitative, in the round assessment…based on the high-level balanced scorecard [1]". This is flawed. This absence of clarity enables subjective and inconsistent scoring, where the difference between an "Outstanding" and "Acceptable" rating rests solely on interpretative language.

We disagree with Ofgem's determination against the RIIO-T3 Outcome: Infrastructure fit for a low-cost transition to net zero and the associated penalty of 1.30bps. We disagree with Ofgem's conclusion that SHET's 26GW clean generation ambition and 2.2GW of connections shows strong intent, but deliverability is uncertain due to reliance on Uncertainty Mechanisms. We also disagree with Ofgem's view that we did not justify the value of costly proposals such as a £30m Species Fund or a potential £100m Carbon Border Adjustment Mechanism (CBAM), with our proposals having unclear environmental benefits and limited stakeholder input, reducing consumer value and credibility. As we set out below these views are irrational and do not present a clear reason for a BPI penalty.

With regards to our Species and Habitat Fund and Ofgem's conclusion that our submission is "high cost" is not a relevant factor when the relevant criteria are ambition and consumer value. The proposal is based on clear consumer value with public consultation responses demonstrating overwhelming support across the UK, with 71% of adults considering insufficient action is being taken to protect the environment for future generation. Our extensive stakeholder engagement has shown 69% of almost 2,000 submissions to our ASTI consultations referring to the environment, wildlife, habitats, nature, or biodiversity. Our response to SHETQ2 provides further details.

Our stakeholder and expert feedback confirm to us that there is a consumer expectation that the environment, wildlife, habitats, nature, and biodiversity needs to be a fundamental consideration in each of our decisions as a TO. Our commitments will deliver long-term benefits including marine habitat restoration (blue carbon sequestration, coastal protection, nursery grounds for commercial fisheries worth £355m GVA and over 10,000 jobs), improved water quality, and workforce development to reduce reliance on costly external specialists.

Similarly, Ofgem's reference to our Carbon Border Adjustment Mechanism (CBAM) proposal is misconceived. CBAM was included to anticipate and mitigate future cost risks from national carbon legislation, thereby protecting consumers from higher bills. Its proactive, preventative nature is wholly consistent with the aims of Stage C. Ofgem's use of CBAM as an example of "unjustified costs" disregards both its purpose and the principle that forward-looking measures can and should not be assessed critically under the Stage C of the BPI. This is unreasonable considering Ofgem supports including CBAM under an uncertainty mechanism, stating that the Net Zero Re-opener can be triggered once CBAM's impact becomes clearer.

Ofgem has raised concerns regarding our presentation of load projects for uncertainty mechanism funding, while simultaneously noting industry-wide uncertainties that have contributed to the challenge of presenting baseline projects. The reference energy pathway for RIIO-T3 is the NESO Future Energy Scenarios 2024 Holistic Transition, the most ambitious of the scenarios and aligned to achieving the sixth carbon budget and zero carbon electricity by 2033. Our business planning incorporates generation and demand forecasts, local connection status, and the effects of connection reforms.

Our Area System Planning approach is a significant pivot from the more reactive network planning approach that has represented business as usual to date. It requires the development and introduction of new tools, processes and methodologies to undertake long term evaluations of the whole North of

Scotland transmission network and its interaction with the rest of GB. This is a novel, innovative and unique approach and means our network planning is more certain than our peers and allows us to align and support the NESO on delivering the CSNP and SSEP during RIIO-T3.

Uncertainty around load projects is explicitly addressed by the Business Plan Guidance through the provision of uncertainty mechanisms, rather than requiring premature inclusion in the baseline. Early regulatory approval is not part of the BPI criteria, and introducing it post hoc undermines the legitimacy of Stage C. Ofgem did not require low/no-regret load investments to be included in to do so and Ofgem is wrong to categorise this a failure and wrong to consider this as part of the Stage C assessment.

Ofgem also presents an untested principle that "a failure to have any load projects that were at a stage of development to be ready to request RIIO-ET3 baseline funding risks creating consumer detriment" [SHET Annex 3.12] and "where substantial investment is deferred to UMs and is not included in business plan commitments, there is a clear risk that project delivery may be delayed. [DDQ Response]" Ofgem has presented this without any evidence. In any event, if Ofgem had intended this such it should have been included in the Business Plan Guidance and incentivised as part of the BPI. Ofgem cannot retrospectively redesign the BPI at Draft Determinations to account for its own failures in Ofgem's BPI's design. This is irrational and procedurally unfair.

We disagree with Ofgem's determination **on the Secure and resilient supplies RIIO-T3 outcome** and the critic of our goal of zero interruptions Ofgem's states '*one of SHET's 2030 Goals of having zero interruptions is an incentive set by Ofgem (Energy Not Supplied ODI-F). There was no new proposal in this area, even relying on the metric used in the ENS incentive (loss of supply events)*' to demonstrate lack of ambition.

Ofgem has rated our commitments to high quality of service as "acceptable," despite our exceptional record of accomplishment under RIIO-T2—over 99% reliability, more than 97% system availability, and only one customer-affecting fault in four years under the Energy Not Supplied incentive. Maintaining this level of performance year after year is inherently ambitious and delivers maximum consumer value, yet Ofgem treats it as unambitious simply because it is sustained rather than new.

On the High Quality of Service RIIO-T3 outcome we disagree with the conclusion that overall, our commitments indicate a consistent approach with some positive aspects, and our housing and stakeholder engagement strategy do not propose significant changes or innovation that would result in a higher rating.

Our housing strategy tackles the challenge of mobilising a large, mostly transient workforce for RIIO-T3 projects in sparsely populated UK regions. By offering efficient, cost-effective housing, we reduce travel, accommodation, and welfare costs, while also addressing rural housing shortages and leaving a positive legacy. Our approach is the only innovative solution proposed for delivering infrastructure in remote communities and deserves recognition.

Ofgem has failed to recognise the value of our AA1000 stakeholder engagement accreditation. This accreditation involves annual audits that set progressively more challenging objectives; maintaining a top tier score each year requires continuous improvement and significant effort. Treating this as a static achievement fundamentally misrepresents the ambition involved.

Our Infrastructure Stakeholder Engagement Survey (ISES) goes further still, applying a three-tiered approach combining online surveys, telephone interviews, and stakeholder focus groups, culminating in jointly developed action plans to improve engagement on critical infrastructure projects. This process has already driven the creation of a new Community Engagement Strategy, with a draft due in September 2025. These initiatives directly enhance consumer value, yet Ofgem has failed to give them appropriate recognition in Stage C scoring.

[1] https://www.ofgem.gov.uk/sites/default/files/2024-07/RIIO-3_Business_Plan_Guidance.pdf

Managing uncertainty UMs, we propose to accept

SHETQ7. Do you agree with our proposal to introduce, and our proposed parameters for, a Property Costs Re-opener for SHET?

We agree with the principle of the Reopener. However, we do not agree with the parameters proposed, specifically the combined process, the timing, and the optioneering requirements, particularly the lack of development funding which will be required before full information can be provided to Ofgem. We do recognise this mechanism will enable cost and programme certainty to be increased, reducing risk for all parties involved, including the consumer.

1. The process of the reopener: A combined reopener will place unnecessary delivery risk upon our property portfolio in the RIIO-T3 price control. It will be extremely challenging for us to align the processes for each project to fit within the reopener simultaneously. A combined reopener process such as this would place an enormous constraint on our resources. While we recognise that it would be more appropriate for us to submit several separate applications within the single year window, we do acknowledge that this may create challenges for Ofgem, as it is harder for them to resource their assessment. For this reason, we propose ongoing engagement with Ofgem to help inform the assessments and to enable Ofgem to resource accordingly. Timely submissions of the schemes progressing through this reopener are critical to enable our wider network investments, and therefore, a reopener window with individual project applications will ensure projects can progress in line with their individual timelines.

2. The timing of the reopener: Ofgem propose a window of April 2028 – March 2029. This timeframe does not provide enough time to build our significant projects, which are due to be complete by 2031. For example, the proposed reopener window of April 2028 is 12 months after the target date for our Transmission Operations Centre project. Adapting to this timeline will require the budget to be revised upwards, including substantial additional inflationary pressures and additional spend prior to Ofgem's assessment of our re-opener submission. We need a clear indication of timelines and propose Ofgem move the reopener window forward by one year, to April 2027 – March 2028. This date aligns with actual project development timelines and provides us with a more appropriate timeframe to complete our works.

3. Optioneering/design of the reopener: In Sections 4.3 and 5.21 of the SHET Annex, Ofgem state they would like us to provide "clear optioneering and scoping information" in our consultation response, and sight of more design information to aid future re-opener reviews. We submitted a DDQ for clarification on how this process would take place (SSEN060). In accordance with this, we intend to use this reopener to gain formal approval of our options and costs, and we will look to provide informal updates alongside this. This would mean that when it comes to the reopener submission, it would largely be an assessment of costs, with formal acceptance of the options. The key concern for us is development funding for property schemes. PCF is required for Load, Non-Load and Non-Operational Capex investments. RIIO-T2 has set the precedent for this approach, and no evidence has been provided to restrict development funding to only Load schemes. These property investments are underpinned by load drivers as they are critical to enable the connection of renewable generation to the network, ultimately contributing to Clean Power 2030 and net zero targets. It is therefore vital for Ofgem to award PCF allowances for all baseline requests. For more information on our position on PCF, please see our response to ETQ26.

Materiality threshold: Considering the costs of the projects put through this reopener and the materiality of the schemes, we do maintain that a default materiality threshold should be applied across all Uncertainty Mechanisms, where possible. We are seeking a default approach to simplify the overall Uncertainty Mechanism package, to ensure simplicity. In line with Ofgem's shift to using RoRE to value the BPI and ODIs we believe that the default materiality threshold for the entire Uncertainty Mechanism package should be set at 0.1% of RoRE, which in monetary value is £10m. This default threshold should be applied widely across the Uncertainty Mechanisms, including this one, to maintain a simple approach. More information on this approach can be found in our response to OVQ13.

SHETQ8. Do you agree with our proposed parameters for the Subsea Cable Repairs Re-opener for SHET?

We agree with the decision to retain the Subsea Cable Repairs Reopener; however, the proposed parameters for materiality threshold and reopener windows are unsuitable. We have provided more effective alternative solutions.

Subsea cables are playing an increasingly important role in our network performance, and this reopener is important to allow us to seek funding for efficient costs associated with resolving unexpected subsea cable faults, or for mitigating the risk of these faults occurring.

Materiality threshold:

We strongly disagree with the proposed materiality threshold of 0.5% of annual ex ante base revenue – this is too high. To implement a threshold of £22m before a subsea cable project can be considered via this mechanism will have a detrimental impact on the repair work, we will be able to carry out. The default materiality threshold to be applied across all mechanisms within the RIIO-T3 price control is not appropriate. This is a change from the current approach in RIIO-T2 where Ofgem recognised that costs are externally driven. We develop this point further in OVQ13.

In line with Ofgem's shift to using RoRE to value the BPI and ODIs we believe that the default materiality threshold should be set at 0.1% of RoRE, which in monetary value is £10m. This is more appropriate for the costs relevant to a subsea cable repair and will allow us to maintain network resilience and stability for consumers. It is essential that we manage the risks which may be posed to the safety and resilience of our network due to subsea cable faults, therefore, an appropriate materiality threshold of £10m to allow us to act on such faults, is a crucial aspect of this mechanism.

Reopener windows:

The proposed reopener windows of April 2028 and RIIO-T3 close out are not frequent enough. Having reopener windows only in April 2028 and at RIIO-T3 close out means we are carrying much more risk. Therefore, we would caution against the mid-period reopener. This reopener should become an annual one due to the increasing number of cables being installed and operational with differing inspection windows. An annual window will provide us the essential agility to respond to subsea cable risks.

SHETQ9. Do you agree with our proposed unit rates?

No, we strongly disagree with the unit rates proposed by Ofgem as part of their Draft Determinations. In our view the rates proposed by Ofgem are unworkable for several reasons and have been calculated on an erroneous basis. This is due to both the concerns outlined below and various issues with the model itself. Our concerns with the model are explained in more detail in our ETQ32 response.

This lack of robustness significantly undermines the validity of the proposed unit rates. Therefore, we have recalculated the unit rates using robust data and methods and these rates must be adopted for Final

Determinations. We provide further detail in our volume driver paper [T3BP-DD-034 - Volume Driver Annex]

Table 24 - SHETQ9 Volume Driver Unit Rates

We consider that Ofgem's proposed unit rates are likely to result in significant windfall losses, which in turn introduces a high degree of risk for both us and consumers as they have an erroneous basis of calculation. Ofgem has failed to recognise that

- There is limited correlation between transmission entry capacity and substation cost, hence the use of a unit rate here is not entirely appropriate, without appropriate adjustments.
- For overhead lines, we use both towers and wood poles, which vary significantly in cost. Applying a single overarching unit rate fails to reflect this variation.

In our view the regressions used to derive the unit rates are not statistically robust. Ofgem's model derived the following results

Table 25 - SHETQ9 – Regression Model Statistical Parameters

	R squared	Model p value	No. observations
Substation	0.562	0.000	25
New OHL	0.960	0.000	9
Cable <1km	0.446	0.004	14
Cable >= 1km	0.801	0.000	14

Ofgem deemed these results statistically significant solely due to a low p-value. However, we must also acknowledge for both substation and short run cable, the R squared value is very low, as well as all regressions having a small number of observations. Taking these points into account, these results are not statistically significant.

The dataset Ofgem used within their model is primarily made up of RIIO-T2 baseline schemes, with the addition of early development RIIO-T3 projects. The RIIO-T2 baseline schemes are not reflective of the current delivery landscape, and the infancy projects were incorrectly mapped to substation costs due to the way they were entered into the BPDT submission (as a single line). Ofgem's model heavily relies on forecast data, with historical connection projects data being limited. This raises concerns about the accuracy and reliability of the unit rates, as forecast data is subject to change.

Furthermore, when compiling the dataset to be used within the model, Ofgem used data in the Cost & Volumes data from our BPDT without required adjustments to achieve cost reflectivity. There is significant risk associated with this, as this data does not incorporate costs that should be inclusive in the Volume Driver unit rates, such as pre-construction funding.

We will continue to work with Ofgem, providing them our proposed mapping and updated data, to help derive more appropriate unit rates. However, to reach a more workable position, changes must also be made to both the outlier and atypical threshold methodologies, as well as the introduction of a mid-period true-up to allow for accurate rates across the entire price control period. We provide further information within our Volume Driver Appendix (T3BP-DD-034 - Volume Driver Annex) and ETQ32.

UMs we propose to reject

SHETQ10. Do you agree with our proposal to reject SHET's Biodiversity Net Gain (BNG) Re-opener?

No, we disagree with Ofgem's proposal to reject SSEN Transmission's Biodiversity Net Gain (BNG) Re-opener. The BNG Re-opener will provide a vital mechanism to allow us to adapt to legislative and market uncertainty. The Scottish BNG landscape is rapidly evolving, with new legislation, planning metrics, and nature market developments expected over the RIIO-T3 period.

We have a legal obligation to deliver BNG, all whilst operating in a highly dynamic environment with rapid and complex changes to the BNG legislative and market landscape in Scotland. Future legislative changes will directly affect planning, compliance, and allowances for our transmission investments. Some key BNG developments that we anticipate materially impacting our investments the RIIO-T3 period, include, but are not limited to:

- Introduction of Scottish BNG Planning Metric.
- Development of Ecosystem Restoration Code (a new credit-based system for valuing nature restoration methods).
- The Natural Environment Bill which may introduce biodiversity targets and alter Environmental Impact Assessment (EIA) documentation.

The introduction of new biodiversity targets and changes to environmental assessment processes means planning disputes, land access constraints, and shifting policy expectations are more frequent. Operationally, the shift towards offsite BNG delivery particularly for overhead line (OHL) schemes introduces further unpredictability and reduced control over-delivery. Rising competition for land, driven by nature markets, housing development, and agriculture, is expected to increase BNG costs and intensify financial pressure on projects.

Without a re-opener mechanism, we face heightened risks of under-funding, delay, and non-compliance.

The BNG Re-opener enables Ofgem to maintain strong ex-ante controls through the approval of our baseline BNG allowances, whilst providing the flexibility needed to accommodate future challenges that are outside of our direct control. It offers a robust and targeted solution to support us in meeting its legal obligations under evolving biodiversity legislation, while also aligning with Ofgem's biodiversity duty. Ultimately, it safeguards long-term consumer value by preventing delays and cost escalation in project delivery.

Proposed BNG Re-opener design principles:

To address the above risks, SSEN Transmission propose that a robust BNG re-opener shall be designed under the following principles to ensure appropriate funding for nature restoration costs:

Materiality threshold: In alignment with Ofgem's transition to using Return on Regulated Equity (RoRE) to assess the value of the Business Plan Incentive (BPI) and Output Delivery Incentives (ODIs), we propose that the materiality threshold for this mechanism be set at **0.1% of RoRE, equivalent to £10 million**. Ofgem's proposed default threshold (0.5% annual average ex-ante base revenue) is not suitable for the types of projects likely to be considered under this re-opener, preventing legitimate cases from being triggered. We expand on this point in our response to OVQ13.

Re-opener window: We propose a **mid-period re-opener** in 2028/29, recognising the potential for changes in planning policy in Scotland that could materially affect BNG requirements across our portfolio. This submission would allow for the **cumulative inclusion of schemes**, enabling the proposed £10 million materiality threshold to be met through aggregated project impacts.

Given the reasons outlined above, we believe a BNG Re-opener is the most appropriate mechanism for supporting BNG initiatives. We welcome continued engagement with Ofgem to clarify the mechanism and its application. In recent bilateral engagement, Ofgem have noted their intent to simplify the RIIO-3 UM suite by proposing the Net Zero Reopener as a route for us to recover costs associated with the uncertainties highlighted above. We agree with the goal to streamline the UM package; however, we do not consider the Net Zero Reopener to be a suitable mechanism for these costs. We remain open to exploring alternative mechanisms; providing Ofgem offers a high degree of certainty and clear indication that BNG projects qualify under the scope. For more information regarding our position on the Net Zero reopener, please see ETQ43.

Cost of service

SHETQ11. What are your views on our engineering assessment of SPT's RIIO-ET3 Business Plan?

In general, we agree with Ofgem's view and further details on need cases and optioneering are provided in the EJP Addendum for each where Ofgem has identified a concern. We welcome ongoing engagement with the Property Portfolio and will provide Ofgem with information through the T3 process ahead of any reopener submissions. A summary of Ofgem concerns and our response (For details please refer to the corresponding EJP Addendum) is presented in Appendix B Response to Engineering Comments.

Additional points raised by Ofgem's assessment

Non lead asset data provision

Ofgem must operate efficiently and consider the burden on firms while fulfilling its statutory duties and objectives. It remains unclear how the additional non-lead data supports Ofgem's objectives, and whether all the data is used for regulatory purposes in setting the price control. The outcome suggests that this data was not material in setting the control, as our intervention concerned only a small and limited set of assets where the need was agreed by Ofgem. Furthermore, we believe the data largely duplicates the information contained in the NARM submission to Ofgem. We believe our approach is the most efficient, providing the data required without Ofgem having to consider unnecessary data. The administrative burden on companies conducting Price Reviews has increased over time. Customers ultimately bear these costs, and Ofgem should only request information necessary to set and monitor the price control.

SHEPD whole system engagement

We note Ofgem's expectation for SHET to engage with SHEPD to ensure that investments made will not have adverse impacts on the local Electricity Distribution networks in line with whole system licence conditions. As part of our system planning and project development and delivery arrangements, we engage regularly at all levels with SHEPD management on our plans. This includes considering the impact on the Electricity Distribution Network. For the specific concerns related to our Shetland on Island

infrastructure proposals, please see our EJP addendum as detailed in Appendix B Response to Engineering Comments.

SHETQ12. Do you agree with the level of proposed NIA funding for SHET?

No, we do not agree with the proposed level of NIA funding, which represents a 22% reduction from our request (£25.5m to £20m). This cut directly undermines our ability to deliver the balanced portfolio of innovation that we have carefully designed to address the most pressing challenges of the energy system transition. A £5.5m reduction may appear modest in isolation, but for a network of our scale and growth trajectory it represents a critical loss of capability. Unlike other networks, we are expanding at a pace unmatched in the UK, rapidly building out new HVDC systems, developing offshore connections at unprecedented scale, and ensuring resilience across one of the most complex and remote geographies in Europe. These challenges demand targeted innovation to reduce risk, accelerate delivery, and minimise costs for consumers.

Our innovation priorities in RIIO-T3 are therefore tightly focused on areas where NIA is the only appropriate mechanism. High-risk, high-reward programmes to explore new and innovative ways of designing, testing, and delivering the unprecedented build-out of transmission infrastructure, including HVDC systems, offshore connections, and the extensive onshore programme of substations and overhead lines, cannot be funded via TOTEX, which is intended for proven, business-as-usual deployment. These challenges require innovation funding through the NIA to identify and trial better, faster, and more efficient methods before they can be scaled through delivery. NIA uniquely enables us to carry out the research, prototyping, and demonstration required to make these technologies work at scale for the GB system. Without sufficient funding, progress in these areas will slow, delaying delivery, increasing costs, and undermining net zero targets.

Alongside these large-scale system challenges, we also seek modest but vital funding for targeted problem areas, such as the remaining gaps in SF_6 condition monitoring and replacement. While significant progress was made in RIIO-T2, there is still essential work to do in RIIO-T3 to accelerate the adoption of alternatives and further reduce emissions. The £500k reduction in this area risks stalling momentum and missing an opportunity to deliver environmental benefits for consumers.

We have also strengthened our governance to ensure that every pound of NIA delivers new learning and consumer value. Our enhanced processes, including our dedicated Innovation Development Team, a five-stage gated process with independent technical and regulatory scrutiny, mandatory duplication checks against the ENA Smarter Networks Portal and wider industry research, provide robust assurance that projects will not duplicate existing work.

Finally, we recognise Ofgem's call for stronger evidence of dissemination. We have a proven track record in RIIO-T2, sharing learning widely through conferences, publications, media, and our digital platforms. In RIIO-T3, we will go further by embedding dissemination milestones into every project, expanding our use of digital content, strengthening our innovation hub, and building an active innovation community. This will ensure transparency, accelerate adoption, and maximise value for consumers.

For these reasons, we strongly urge Ofgem to reinstate our full £25.5m request. Anything less risks constraining our ability to deliver the innovations that will make the network safer, smarter, greener, and faster, and in doing so, risks higher costs and slower progress for consumers and the energy system.

A detailed response covering this question is provided as annex T3BP-DD-033 SHETQ12 - SHET Full Response.

Data and Digitalisation

SHETQ13. Do you agree with our proposed level of funding for SHET's data and digitalisation investments?

Yes, we agree with the proposed level of funding for SHET's data and digitalisation investments.

Other Issues

Strategic Land & Injurious Affection

Within our Business Plan we submitted allowances for dealing with Injurious Affection and Strategic Land. These costs were removed by Ofgem as part of the Draft Determination which we disagreed with as these are fundamental activities to operate an economic and efficient network. Following engagement with [redacted], subject to agreement on the regulatory treatment of the allowances and any subsequent Supplementary Questions. We have reaffirmed our position from our Business Plan submission below but look forward to working with Ofgem between Draft and Final Determinations to an agreed position.

- **Injurious Affection** claims relate to the provision under the Electricity Act 1989 available to landowners and occupiers to terminate existing land rights with the licence holder and seek compensation. We propose that an ex-ante allowances with a true up at close out to account for any differences against forecast, as some of these costs are subject to the discretion of the courts.

- **Strategic Land** addresses the increasing demand for land in and around our existing substations and other strategic locations such as land fall points by third parties such as Battery Storage meaning that our substations are becoming land locked with limited scope for extension. This proposed allowance mitigates the risk of requiring additional new substations by securing land to extend existing ones and aligns to Ofgem's ambition to enable future optionality to extend substations. We proposed an ex-ante allowance with a true up to account for to adjust for unknown costs. We are open to discussing alternative regulatory options, such as a UIOLI allowance.

We will continue to engage with Ofgem following the submission of this response on the inclusion of these allowances.

4. Impact Assessment

IAQ1. Do you agree with our approach to assessing the economic impacts of RIIO-3?

Yes, we broadly agree with Ofgem's approach to assessing the economic impacts of RIIO-3. However, we believe the analysis conducted by Ofgem and laid out in the Draft Determinations could have included a more in-depth review of the economic impacts of the investments being made by the TOs over the RIIO-3 period. Although the analysis on the impact on consumer's energy bills is useful, it makes up only part of the economic story of RIIO-3.

We also find the methodology for setting the counterfactual scenario of an "evolved RIIO-2" to be too broad in allowing Ofgem assume that certain policy decisions would have been made as a passive 'evolution' of RIIO-2 opening the door to cherry picking which positions would be included/excluded from the counterfactual. This approach has led to the exclusion of significant changes in approach and parameters, from the analysis, specifically around WACC values and the costs assessment process.

Impacts on economic growth

On the wider economic impacts of RIIO-3, we are pleased to see Ofgem speaking to their Statutory Growth Duty and acknowledging the economic value RIIO-3 will have beyond its direct effect on consumers bills. We look forward to working with Ofgem on further development of how the growth duty will be addressed. However, it is unfortunate not to see the inclusion of the positive economic impacts of SSEN Transmission's Business Plan included alongside that of NGET and SPT in the Draft Determinations.

SSEN Transmission's RIIO-T3 Plan[1] is one of the largest investment programmes in Scotland and is set to drive significant economic growth. Our Plan is expected to support around 8,400 jobs in the north of Scotland, an additional 9,000 across the rest of Scotland, and 19,500 in other parts of the UK, totalling around 37,000 jobs. Additionally, our investment plans will generate over £15bn in GVA for the UK, with £3bn of this being in the north of Scotland and £4bn across the rest of Scotland.

Community Benefit Funding is another area we believe should have been touched on more as part of RIIO-3's economic impact. Although CBF is a UK government policy, Ofgem will facilitate it through the RIIO-3 framework. The CBF will have tangible economic benefits to many local communities where transmission infrastructure will be hosted throughout the RIIO-3 period and beyond.

IAQ2. What are your views on the appropriate approach to evaluation of the economic impacts of RIIO-3?

Using the correct methodologies for evaluating the economic impacts of RIIO-3 are critical to the framework's success and to reaching the CP2030 objectives. As mentioned in our response to IAQ1, we are broadly supportive of the approach Ofgem has taken to evaluate the economic impacts of RIIO-3, however, there are some key areas where we feel the methodology could be improved that will give a more complete picture of the economic impacts of the RIIO-3 framework.

Impact Assessment for RIIO-3

The IA for RIIO-3 has been conducted broadly in line with Ofgem's own Impact Assessment Guidance[2], which makes use of best practice techniques for evaluating policy decisions. However, there are a few areas where we believe the IA could be strengthened. When defining the counterfactual scenario to accompany the analysis Ofgem should include all major policy shifts, even if these changes are a

continuation of mechanisms which already exist in RIIO-2 but have been significantly modified (this does not include those which are automatically adjusted due to updated information on past performance). We believe this allows for a more accurate comparison to RIIO-3.

Secondly, Ofgem, in alignment with its own Impact Assessment Guidance, should include a process for monitoring and evaluating the success of the RIIO-3 framework in achieving its set objective and goals. This process should have been part of the IA from the outset.

Evaluating wider economic impacts

As discussed in our IAQ1 response, we believe Ofgem could do more to report on the wider economic impacts of RIIO-3. Our RIIO-T3 Plan sets out the economic impacts of SSEN Transmission's investment plans for the north of Scotland, the wider Scottish economy, and the UK economy. The three TOs provided, as part of their Business Plan submissions, a review of the economic impacts of their investment in the RIIO-T3 period. As part of Ofgem's economic evaluation of the RIIO-3 framework, it should have carried out its own analysis, using data from the TOs planned investments to show the impact RIIO-3 will have on the UK economy in terms of the jobs supported and the GVA created. This analysis would give a fuller picture of the economic effect of RIIO-3 and counter immediate and direct impacts on consumer bills, which although important, are only part of the economic impact of RIIO-3.

IAQ3. Do you agree with our approach to modelling the bill impacts of RIIO-3? Please provide any additional effects or alternative measures that you think would be appropriate

We provided a comprehensive analysis of the impact on consumer bills in RIIO-3 and beyond with a focus on the impact of unprecedented investment in Electricity Transmission on consumer bills. We undertook our bill analysis on a UK basis out to 2050 rather than on our licence area and bound by the RIIO-3 period only.

Our overall view is that consumer energy costs would fall by at least 30% over the period to 2050 in real terms. This is not including constraint cost savings from new transmission investment. When modelled over the period to the end of RIIO-T3 we estimated a similar bill impact of around £120 per domestic consumer dependant on assumptions on totex and the financial parameters.

As a result, we are of the view that the impact appears consistent with our own analysis and therefore believe Ofgem's modelling on the surface appears suitable. We do however believe providing the analysis and modelling would allow a more comprehensive sector discussion on consumer energy costs including non-domestic energy costs. We would welcome discussion and sharing of methodologies with the Ofgem team to ensure there is comprehensive and accurate engagement within the sector and with key stakeholders of the impact of our investment on energy costs in the UK.

We believe that economic and social impact are key factors and should be considered but not as part of consumer energy bills or costs.

5. Appendices

Appendix A. PCD Drafting for SHET Q1

Table 26 - SHETQ1 General PCD Drafting

Proposed PCD	EECEt related Outputs (TCA and OOW (One Off Works))
Protection Refurbishment/ Replacement and Modernisation:	Replace: • 32 protection assets • 50 tele-protection assets • 5 feeder protection schemes • 15 transformer protection schemes 1 busbar protection scheme
Transmission Substation SCADA Replacement:	Replace: • 69 C10e RTUs • 14 legacy RTUs (1980s) • 9 obsolete HMIs • C10e RTUs to be retained as spares
System Monitoring Replacement and Modernisation:	• TWS Fault Locators replace with 13x FL-8 • IDM Fault Recorders upgrade 19x to IDM+ • Replace signal conditioning electronics of 10x BVM Power Quality Sensors • Apply license upgrades to 35x IDM+/IDME Multifunction Recorders to include Power Quality and Phasor Measurement capability • Install a small subset of 5x Waveform Measurement Units, at locations to be agreed with the NESO

Table 27 - SHETQ1 NARM PCD Drafting

Proposed PCD	EECEt related Outputs (TCA and OOW (One Off Works))	NARMt related Outputs (Sole Use (H1) and Shared Use (H2))
OX36 Circuit Breaker Replacement	• Replace 5x 33kV OX36 SF6 circuit breakers and associated ancillary equipment. • Locations: Dunbeath (1x CB), Nairn (2x CB), Taynuilt (2x CB)	
132kV Circuit Breakers Replacement at Shin substation		• Replace 2x 132kV Alstom DT1 SF6 circuit breakers and associated ancillary equipment at the Shin substation
132kV Circuit Breaker Replacement at Errochty substation		• Replace 1x 132kV Brush DB145 live tank circuit breaker (CB 705) and associated ancillary equipment at the Errochty substation
Foyers Power Station	• Replace the existing 2x 165MVA 275/18kV transformers and associated ancillary equipment • Replace last 275kV oil-filled underground cable (GO-Bundle-1981) between substations	• Replace feeder bay at Foyers Switching Station • Install all required auxiliary assets, civil structures, and equipment
Sloy Power Station	• Replace the existing 4x 132/11kV 50MVA Grid Transformers (GTs), associated switchgear, auxiliary equipment • Install 4x 132/11kV GTs and associated ancillary equipment • Install 4x 132kV circuit breakers and associated ancillary equipment • Install 8x 11kV circuit breakers and associated ancillary equipment • Install 132kV and 11kV cabling and associated ancillary equipment	• Install all required auxiliary assets, civil structures, and equipment. • Replace required OHL assets. • Remove all redundant assets.

Proposed PCD	EECEt related Outputs (TCA and OOW (One Off Works))	NARMt related Outputs (Sole Use (H1) and Shared Use (H2))
Kilmorack Power Station	• Replace the existing 1x 132/11kV 22.5MVA GT1 transformer with a new 30/36MVA transformer and associated ancillary equipment • Install new 11kV switchgear and associated ancillary equipment. • Install required length of 11kV cables and associated ancillary equipment	• Install new 132kV switchgear, including 1x 132kV circuit breaker, and associated ancillary equipment • Install required length of 132kV cables and associated ancillary equipment • Replace required OHL assets. • Install all required associated auxiliary equipment
Aigas Power Station	• Replace the existing 1x 132/11kV 22.5MVA GT1 transformer with a new 30/36MVA transformer and associated ancillary equipment • Install new 11kV switchgear and associated ancillary equipment. • Install required length of 11kV cables and associated ancillary equipment	• Install new 132kV switchgear, including 1x 132kV circuit breaker, and associated ancillary equipment • Install required length of 132kV cables and associated ancillary equipment • Replace required OHL assets • Install all required associated auxiliary equipment
Willowdale–Clayhills Substation Upgrade: *Outputs to be delivered by 31 March 2031 (RIIO-T3)*	Upgrade Willowdale substation capacity: • Install 2x 120MVA 132/33kV transformers, associated ancillary equipment, 132kV and 33kV substation cables Install non-SF_6 GIS type indoor 132kV switchgear, including: • 4x 132kV transformer circuit breakers, and associated ancillary equipment Install new indoor 33kV GIS switchgear for Willowdale connections, including: • 2x 33kV GT circuit breakers (owned by SSEN Transmission). • Distribution circuit breakers for Willowdale 33kV connections (to be transferred to SHEPD post-completion)	Install non-SF_6 GIS type indoor 132kV switchgear, including: • Other 9x 132kV circuit breakers (part of the GIS), and associated ancillary equipment • Install required length of 132kV cables to connect the GIS • Transfer the load from the existing 2 x 60MVA Willowdale transformers and AIS type switchgear Install new indoor 33kV GIS switchgear for Willowdale connections, including: • Install all required auxiliary assets, civil structures, and equipment • Energize Willowdale related transformers, switchgear, and auxiliary assets

Proposed PCD	EECEt related Outputs (TCA and OOW (One Off Works))	NARMt related Outputs (Sole Use (H1) and Shared Use (H2))
Outputs to be delivered by 31 March 2036 (RIIO-T4):	• Decommission all redundant Willowdale assets Further upgrade Willowdale substation capacity by: • Installing additional 2x 120MVA 132/33kV transformers, associated ancillary equipment, 132kV and 33kV substation cables Install new indoor 33kV GIS switchgear for Clayhills connections, including: • 2x 33kV GT circuit breakers (owned by SSEN Transmission) • Distribution circuit breakers for Clayhills 33kV connections (to be transferred to SHEPD post-completion)	• Install all required auxiliary assets, civil structures, and equipment • Transfer the load from the existing 2x 60MVA Clayhills transformers and AIS type switchgear, to the Willowdale substation • Energize Clayhills related transformers, switchgear, and auxiliary assets at Willowdale • Decommission all redundant Clayhills assets
Dunoon Substation Upgrade	• Replace 2x 45MVA transformers with 2x 120MVA transformers • Install new indoor 33kV GIS type switchgear, including 2x 33kV circuit breakers • Connect the new site to the existing 132kV and 33kV network, by installing the required 33kV cables • Install all required auxiliary assets, civil structures, and equipment • Decommission all redundant assets	• Install new 132kV AIS type switchgear, including 2x 132kV circuit breakers, and associated ancillary equipment • Connect the new site to the existing 132kV and 33kV network, by installing the required 132kV cables and OHL assets • Decommission redundant OHL assets

Appendix B. Response to Engineering Comments SHET Q11

Load Table 28 - SHETQ11 Load Errata Narrative

Project	Ofgem Concern	Response	Detailed response document
EJP081/EJP080 (Errochty-Charleston 132kV and Beauly-Loch Buidhe)	Derogation process must be completed	**Errochty – Charleston 132kV** We are following the derogation process. The approach does not seek to bypass the derogation process; instead, we intend to engage with Ofgem at appropriate timescales to confirm the requirement for derogation following re-evaluation following G2tWQ process. **Beauly-Loch Buidhe** An Ofgem-approved derogation is already in place for the Beauly to Shin to Loch Buidhe 132kV double circuit OHL. We have submitted a request to update the scope of this derogation to reflect the transition to a Strategic 400kV OHL solution under ASTI.	T3BP-DD-008_T3 Derogation DD response.docx
	Provide evidence of the progress to date on the derogation	**Errochty – Charleston 132kV** Please refer to attached document. **Beauly-Lock Buidhe** Please refer to attached document.	
EJP085 – Shetland	Further information required on voltage selection	**Optioneering in voltage selection:** In Section 2 of EJP Addendum, we provided details on optioneering in voltage selection including assessment approach, options and rationale: **Environmental and Deliverability Screening, System Studies and Cost-Effectiveness Analysis.**	T3BP-DD-006_Shetland Policy Paper - EJP Addendum.docx
	Concern on limit future optionality	**Future optionality:** In the Addendum, we have explained that the 220 kV strategy offers a robust and flexible backbone for Shetland's energy needs through 2050, supporting multiple future pathways under SSEN Transmission's Area System Planning. Further details in Section 2.2.	

Project	Ofgem Concern	Response	Detailed response document
	Concern on alignment with other works and wider GB network	**Alignment with other works and the wider GB network:** The Addendum also detailed how the 220 kV strategy integrates effectively with GB network plans and local priorities. It aligns with NESO's Beyond 2030 recommendation for a second Shetland–GB HVDC link, supports ScotWind connections, and avoids the need for a third HVDC export. Full details are available in Section 2.2.	
	Request for wider implications of a 200kV solution	**Wider implications of a 200kV solution:** The project has significant implication, and a full list is in the Addendum Section 3.2 and that covers supply chain pressures management, new GIS technology deployment, support environmental and sustainability goals, reduce consenting risks etc. Full details are available in the EJP Addendum.	
EJP086 – Steady State Voltage Paper	Limited site data	Detailed optioneering has been undertaken to determine a preferred solution for the location of reactive compensation equipment in both the Alyth Area and Knocknagael Area of the network. Full details are available in the Addendum.	T3BP-DD-007a_Alyth Low Voltage Optioneering Rev 0.1.docx T3BP-DD-007b_Knocknagael_Farigaig Area High Voltage Project Rev_Final.docx

Non-Load Core & Resilience

Table 29 - SHETQ11 Non-Load Errata Narrative.

Project	Ofgem Concern	Response	Detailed response
EJP034 Flood Mitigation	Optioneering not robust and only prefer option presented	We detailed the optioneering in the EJP Addendum with details on the robust site selection risk scoring framework and scoring criteria in Section 3 of EJP Addendum. **Optioneering for each substation:** Robust optioneering is conducted across nine sites, focusing on flood resilience, cost-effectiveness, and minimal disruption. Further details on the optioneering and the rationale are provided in Section 3.5 for each site. • Selected options: typically involved raising access routes, installing demountable barriers, or creating alternative links using existing infrastructure. • Options rejected: where they posed excessive cost, operational complexity, landowner disruption, or consenting risks. • Common selection criteria: flood resilience, operational impact, cost, and deliverability. • Full details are available in the Addendum.	T3BP-DD-010_T3DD016_Flood EJP Addendum.docx
	Lack of clarity on town and country planning arrange ments	**Town and country planning:** Further details on planning arrangements are included in Section 2. As the project is currently at Gate 1 of the Large Capital Projects (LCP) stage gate process, formal planning applications have not yet been submitted. We are confident that all necessary consents will be obtained in line with the agreed timelines. Full details of planning action required for each site are listed in Section 2.	
EJP-027 Telecoms	Data Request	We have responded to Ofgem via the secure data transfer systems.	We have responded to Ofgem via the secure data transfer systems.

Project	Ofgem Concern	Response	Detailed response
EJP-022 – Tomatin Noise Mitigation	Need case not justified as previous funded	Ofgem questioned the need case of this project and considered it has been funded previously. In the EJP Addendum, we explain in detail, the project was compliant with the standard at the time, meeting the planning permissions and mitigation measures were delivered under original scope. We also detailed the reason the noise issue was not in our control, including unforeseen environmental conditions in the EJP Addendum.	T3BP-DD-009_T3DD015_Noise Mitigation Strategy Addendum.docx
	Optioneering: inadequate non-build options	**Optioneering:** SSEN Transmission proactively pursued both non build and build options before identifying the preferred solution, details are included in EJP Addendum, covering Noise Reduction Conductor Coating on Affected Spans, Cleaning jumpers / physical inspection / conductor sample analysis / acoustic camera surveys and finally reconductoring to increase bundle size. **Conclusion:** The original project fully complied with standards and planning conditions and delivered all reasonable mitigations. The current noise issue stems from an unforeseen, industry-wide methodological gap linked to microclimatic conditions not accounted for under TR(T)94. After ruling out all non-build options, reconductoring remains the only effective and enduring solution to ensure compliance and address community impact, while also resolving a related wind complaint, making this a justified need case that should be approved.	Full details are available in the Addendum.