Email to:

[RIIO3@ofgem.gov.uk](mailto:RIIO3@ofgem.gov.uk)

X August 2025

Dear RIIO team,

**Response to RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors**

Scottish Renewables is the voice of Scotland’s renewable energy industry. The sectors we represent deliver investment, jobs and social benefits and reduce the carbon emissions which cause climate change. Our 360-plus members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland’s homes and businesses.

The rate of renewable energy project buildout has far outpaced the associated grid development in recent years, with network investment equating to a [fourth](mailto:https://www.theguardian.com/business/2024/dec/09/uk-renewable-energy-grid-connection-infrastructure) of that spent on renewables in the UK. Combined with other inefficiencies, this has led to lengthy delays for grid connections that are impeding the pace of decarbonisation. Scottish Renewables thus warmly welcomes Ofgem’s initial investment package for the RIIO-3 price control period that will be the driving force in our ability to meet imminent climate targets.

Ofgem’s need to straddle the role of protecting consumers while accelerating buildout at unprecedented rates must not be seen as an either/or but mutually reinforcing criteria. Connecting renewables to the grid through bold investment decisions with tight incentives will realise the most consumer savings by transitioning energy prices away from a volatile gas market. Outside of impact on direct consumer savings, anticipatory investment in networks is proven to create positive economic ricochet in the wider economy, reinforcing the need for Ofgem to lean into a bolder and less risk-averse approach that more closely aligns with the UK government’s clean power mission.

**Unlocking investment at pace**

Overall, we are supportive of the financial framework presented by Ofgem but argue that it needs to be further optimised to ensure transmission network operators (TOs) are sufficiently supported to deliver at pace on an enduring basis. The decision to approve all network projects’ Needs Cases demonstrates Ofgem’s recognition of the overwhelming need for widespread buildout. However, the structure of the funding allowances needs some revision to cover capital expenditure (CapEx) in a way that meaningfully de-risks the TOs’ process of investing, building and maintaining projects in a much-increased portfolio.

*Piecemeal decision-making*

The routes for allowance as currently presented in the Draft Determinations are overly restrictive on TO spend to the detriment of early investment and pace of delivery. The decision to approve baseline operating costs only acts as a blocker to efficient delivery of projects in a period where network build cannot absorb any additional delays. For some TOs, Ofgem have cited a lack of detailed information over future spend as impeding the regulator’s ability to approve spend. However, we urge Ofgem to ensure sufficient cross team communication is being undertaken to capture all information inputs submitted by the TOs that capture the full detail that could be reasonably expected at present.

The need for TOs to submit reopeners for the remainder of its spend outside of core business costs introduces additional, bureaucratic decision-making time when delays are already being experienced for signoff of large projects. TOs to date have at times been forced to work at risk to avoid the knock-on impact of a decision delay, notably on Large Onshore Transmission Investment (LOTI) and Accelerated Strategic Transmission Investment (ASTI) projects ahead of regulatory approval. However, this approach cannot be sustained in light of the considerable step up in portfolio size and associated investment. As construction times lengthen, the impact of limited pre-construction funding (PCF) as a result of additional regulatory processes will only be amplified. The risk appetite will not be able to extend to all the strategic works required to meet the Clean Power 2030 Action Plan (CP30) and thus, the piecemeal route for allowance presents a material risk to timely delivery.

One area in particular where clarity on investment is required is around the recruitment of a workforce to match the growth in delivery. Reopeners for increased headcount delays this process in a time where securing the necessary skills for the industry is already posing as one of the main challenges for delivery and ensuring a high quality of service for customers. Similarly, investments outside of the core, strategic works such as local and regional investments are just as vital to realising final connection to the projects meeting our climate goals. Ofgem needs to shift gears in its regulatory approach to align with CP30 and provide a more holistic investment framework that recognises the ancillary necessities to deliver the unprecedented network expansion from the offset and empowering the TOs to fulfil their enhanced responsibilities.

While we recognise Ofgem’s desire to assess how funding is being spent to subsequently inform reopeners, we think there needs to be a streamlined route to renewed funding to avoid any risk of delay while respecting Ofgem’s need for greater detail of project spend.

*Sustainability practises*

We are disappointed in Ofgem’s decision to reject all sustainability-related funding proposals from the TOs, which seems at odds with the trajectory of modern practises. The value for money and additionality of sustainability activities must be questioned but in a way that promotes and shapes effective policies, not outright rejects them. Low-cost initiatives such as biodiversity net gain efforts that have no material impact on bills should be encouraged with the right risk to reward consideration. Similarly, proposals that employ Use-It-Or-Lose-It (UIOLI) frameworks should be optimised through evaluation metrics in the knowledge that unused funds flow back to the consumer.

While the political dial has shifted to the economic potential of renewables in recent years, it cannot be forgotten that the impetus behind the global drive to renewables is to reduce emissions and our environmental impact. As such, our approach to deploying large scale grid infrastructure and reinforcements must be inherently linked to a respect for the environment and sustainable practices. We encourage Ofgem to reconsider some of the sustainability proposals and invite revisions and/or evaluation metrics to monitor their delivery.

**Designing the right incentives – ET Annex**

Scottish Renewables strongly supports the tightening of incentives on the TOs to deliver their promised works on time and on budget to de-risk renewable project delivery, notably by applying incentives across entire scheme portfolios. While we think Ofgem needs to unlock more investment for the scale of works by the TOs, we continue to advocate for efficiency in their services to retain affordability of grid connections. As such, we are proposing additional ways that Ofgem can strengthen some of its incentives to better achieve their intended effects and go beyond what is currently envisioned.

*Connections incentive*

Members are in consensus that the introduction of a connections incentive to local capacity uplift is a more appropriate reflection of good practice; however, some are concerned the current design could incentivise the wrong behaviours. Setting the target at a capacity level could drive TOs to deliver network upgrades/works in non-optimal sequences, for example delivering smaller works over longer, larger projects. We encourage Ofgem to revisit this mechanism to ensure these inadvertent affects could be mitigated against through an enhanced design. Furthermore, the TOs are already mandated by the process of Connections Reform to deliver and therefore, any additional incentive needs to be designed in a way so as not to introduce duplication.

While the shift to connections capacity is sensible, some members are keen for the record of TO engagement to be retained in some form. Although the engagement feedback form at present is not fit for the purpose of accurately reflecting industry sentiment towards the TOs’ delivery, we encourage Ofgem to find another means to assessing this accurately. Retaining a reputational incentive is key as Generators cannot rely on NESO to adequately manage the connection and therefore, direct and timely engagement with the TOs is non-negotiable. If the incentive were to be removed, there is the risk that direct communication would no longer be afforded. As quality of communication varies significantly across the TOs, particularly between England and Scotland, Ofgem should consider ways to enhance the incentive to standardise behaviour.

The surveys currently used are flawed as the qualification for responding is controlled by the TOs, therefore those who have not received quality communication are typically not invited for comment, warping the overall response. We appreciate that Ofgem is aware of this issue, therefore we are suggesting the following changes to be made to improve the quality of the survey: improvement to the survey questions through the rating of clear departmental and procedural categories and preventing the TOs from cherry picking customers to respond.

In addition, we suggest that the recording of TO delays and sharing of these performance metrics should be standardised and easily accessible as a further reputational incentive.

*Innovative incentive*

There is shared concern across industry around the added value of a highly subjective, innovation incentive. There is already a considerable amount of funding within the RIIO framework apportioned to promote innovation and thus, it does not appear to be the best use of funds. Without the need to evidence more quantifiable benefit for the network or generators, the qualification for the incentive would need to be more clearly defined and require a real-world deliverable on completion.

For TOs, having 1% return of equity subject to a subjective panel decision represents too high of a risk for the potential reward. Furthermore, it replicates some of the aspects of the Total Expenditure (ToTex) mechanism but with more uncertainty and thus, we recommend Ofgem remove its inclusion.

*Force majeure*

We strongly agree with the amendment to remove supply chain from the list of possible ‘force majeures’ causing project delay, which supports our view that the TOs should diversify their supply chain for improvements in delivery times and costings.

*Lump sum on-time incentive*

Although we appreciate Ofgem’s efforts on the incentives and penalties, they are still at present insufficient to ensure the TOs deliver the reinforcements for CP30 on time with the current track record. Specifically on the 2.5% of forecast ToTex lump sum reward for on-the-day or before delivery, we are not overtly opposed to its inclusion but strongly feel that an equivalent penalty should be applied to the TO for any delay. Generation can become unviable due to the consequences of connection date delays outside of a developer’s control, including lost revenue and failure to adhere to CfD timings.

As 2.5% is being budgeted as a potential bonus for on-time delivery, it only makes sense that this funding would be accrued and available to distribute to impacted parties from delays beyond the delivery date as compensation. We have previously advocated that delays to connection be adequately recognised through compensation mechanisms, as is already practised throughout Europe to incentivise delivery and protect renewable projects.

At present, the weighting between TO incentive and penalty is not balanced. TOs essentially have a buffer of 12 months post-delay with the maximum incentive of earning 10% of forecast ToTex but only 5% penalty weighting. In terms of managing the cost to consumer, without sufficient compensation/incentive mechanisms to ensure timely grid connection, developers will be pricing in risk of delay into CfD bids, which are ultimately recovered by consumers. While the network needs to be investible, so do Generators face the same question for projects and the network is expected to be delivered in time, which the framework should reflect more closely.

While the 10% CapEx reward for early delivery might seem like a lucrative reward that would sufficiently incentivise TOs, the appropriate mechanism must be designed in the context of their historic behaviour which is, unfortunately, chronically delayed. Thus, it makes sense to curb delays as much as possible as opposed to rewarding early delivery, which is seen by Generators as an unlikely, idealistic scenario.

**Strengthening licence obligations**

We are highly supportive of the introduction of a licence obligation around TO coordination and are keen to work with Ofgem to ensure this is robust and delivers an enduring improvement to current working practices between Generators and TOs. With the deployment of significant amounts of renewable and network-related infrastructure, TOs and Generators need to act in a harmonised approach to both achieve the goals of strategic plans set by Government but also to engage with the public in a constructive manner.

We understand that existing mechanisms are in place to encourage TO coordination but, as evidenced by recent project misalignments, these are not providing sufficient impetus for positive coordination and communication. Therefore, a binding obligation with appropriate penalties and incentives would help reinforce improved alignment between the parties. While we recognise the practicalities of enforcing the coordination may be challenging, it is of great importance that the TOs’ responsibilities in early and thorough communication about project changes and/or community engagement are adhered to in order to present a united renewables position to communities.

**Additional asks**

In addition to our comments on Ofgem’s proposals, we would like to draw attention to persisting issues relating to the TOs’ activities that are reaching intolerable heights for Generators and which require imminent solutions.

*Transparency on grid connection costs and delays*

In recent years, Generators have seen grid connection costs rise astronomically, very often unaccompanied by a transparent breakdown of costs even when requested. One example is a 450% increase over the span of one year, the scale of which is not an anomalous example. Further increases combined with grid connection delays subsequently led to the example project becoming unviable. Unpredictable cost increases are being inserted into contracts with minimal explanation and/or justification, e.g., buffers to prevent future price increases, and are actively jeopardising live projects.

We urge Ofgem to develop a means to penalise and/or rigorously evaluate the justifications behind cost increases that go beyond a certain percentage, or incentivising keeping these low/managed. Implementing a provision of information incentive could, in the first instance, alleviate the uncertainty of forthcoming costs, while the real costs also need to be addressed.

Likewise, the issue of grid connection date delays and timely notifications of these changes/evolutions in the work schedule has reached unworkable levels over the last 18 months. Generators cannot weather last minute changes to delivery schedules and urgently need certainty and/or more of an ongoing conversation with the relevant TO on how the delivery is progressing. Generators need to be able to adapt their own project timelines and mitigate the impact of delay, which is helped through earlier communication of (likely) changes. We are aware of the difficulties of TOs sharing sensitive information as well as the inherently last-minute nature of some engineering changes; however, a solution must be developed to help in cases where earlier communication can be made.

In line with the above issue and as aforementioned in our response, we are advocating for a comprehensive delay compensation scheme to be developed to de-risk renewable projects and better weight the risk towards the party with control over delays, i.e., TOs. At present, both TOs and Generators are pricing in risk of delay, duplicating the cost to consumer with the Generator taking 100% of the financial risk in the event of a delay. The UK Government’s world-leading ambitions for Clean Power are at odds with its regulatory approach in that the UK is currently one of the only mature renewable energy market countries with no risk-sharing mechanisms for grid delays.

As the scope of work dramatically increases for TOs over the next few years, so does the risk of delay and thus, to protect consumers and renewable energy projects, a revised approach must be developed. Generators are exposed to a higher cost of capital and thus, pricing in risk for non-compensated grid delays is falling to the consumer through inflated CfD bids as opposed to through cheaper, TO-related mechanisms, which have access to lower cost of capital. Generators need more thorough commercial protections that align with those of its European counterparts to be able to secure the financing for projects in the UK.

Ultimately, we welcome Ofgem’s unprecedented levels of transmission network funding and are keen to work with the regulator to optimise the draft framework to deliver for Generators, TOs, consumers and our climate targets.

Scottish Renewables is keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

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Holly Thomas

**Grid & Systems Policy Manager   
Scottish Renewables**