Email to:

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August 26, 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 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 as mutually reinforcing. Connecting renewables to the grid through bold investment decisions with tight incentives will realise 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[i], 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 has cited a lack of detailed information on 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, including all relevant details that could be reasonably expected at present.

The need for TOs to submit reopeners for the remainder of their spend outside of core business costs introduces additional bureaucratic decision-making when delays are already being experienced for signoff of large projects. TOs have 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) because of additional regulatory processes will only be amplified. As above, PCF needs to be as automated as possible to avoid delays. Historically, Ofgem has, at times, taken three months in determining PCF eligibility; 3 months equate to a season of bird studies, evidencing the financial and schedule implications of slow, regulatory processes. One area that requires early funding is land purchases, due to the limited availability of land and fierce competition in the market. Inhibiting TOs from early procurement causes other Generators to secure valuable land close to substations, preventing future expansion and/or jeopardising the original project. We encourage Ofgem to streamline the route for PCF and reconsider the scope of what falls under its remit.

The risk appetite of TO shareholders will not be able to extend to all the strategic works required to meet the Clean Power 2030 Action Plan (CP30), making the piecemeal route for allowance a material risk to timely delivery. If Ofgem is unwilling to adjust its core approval route, reopeners must be as automated and streamlined as possible, with minimum regulatory burden on both the regulator and the TO. A good example of this is in the volume driver, if rates are calibrated at the right unit cost to avoid funds needing to be procured through alternative, longer processes.

One area 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 at a time when securing the necessary skills for the industry is already posing a significant challenge for delivery and ensuring a high quality of service for customers. This is a particularly acute issue for Scotland, which has a tighter labour market due to its relative size compared to its energy sector, coupled with a need for reskilling to support a fair and just transition from high-carbon industries.

The significant increase in work packages equates to a much higher rate of stakeholder engagement, which is reliant on having the right people ready to engage. The increase in work packages is insufficiently recognised in other areas of the determinations, including the overall finance package that relies on an overly traditional view of cost benchmarking. Applying a historic outlook to a plan that expects delivery rates to quadruple is not realistic, given the increase in support costs associated with

such a multiplied rate of delivery. Ofgem must adopt an assessment process that aligns with the Government's strategic objectives.

Similarly, investments outside of the core, strategic works, such as local and regional investments, are just as vital to realising the final connection of the projects needed to meet climate goals. Ofgem must adjust 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 outset and empower TOs to fulfil their enhanced responsibilities.

While we recognise Ofgem's desire to assess how funding is being spent to inform reopeners, 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 practices

We are disappointed in Ofgem's decision to reject many sustainability-related funding proposals from the TOs, specifically on flexible mechanisms for biodiversity enhancement and carbon reduction, which is at odds with Government objectives. The value for money and additionality of sustainability activities must be questioned, but in a way that promotes and shapes effective policies, rather than outright rejecting 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.

Certain sustainability providers, such as low-carbon concrete, are newer to the market. TOs need to provide certainty of portfolio spend to enable the supply chain to develop competitive bids. Ofgem should employ a cost-benefit analysis to evaluate the benefit to the consumer for more informed decision-making around the funding of more sustainable options.

While political focus has shifted to the economic potential of renewables in recent years, it cannot be forgotten that the impetus behind the global drive for 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 should foster 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 the affordability of grid connections. As such, we propose additional ways in which Ofgem can strengthen its incentives to achieve its 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 and comes at the right time with Connections Reform and measuring against CP30 targets. However, some are concerned that 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 more minor works over longer, larger projects. Furthermore, the process of Connections Reform already mandates the TOs to deliver and therefore, any additional incentive needs to be designed so as not to introduce duplication. We encourage Ofgem to revisit this mechanism to ensure these inadvertent effects can be mitigated through an enhanced design.

Specifically, members are supportive of Ofgem's outline for Option 1 in the ODI to measure the progress of each customer connecting to a specific project as a simple, transparent way of monitoring the TOs' delivery progress. To ensure the accuracy of delivery success, we recommend aligning the connection metric against a site's ability to export/import, rather than just the completion of the physical works. This will ensure that a Generator's late arrival does not distort the metric. An incentive that encompasses the delivery of the associated enabling works will be key to measuring success. Ofgem should consider increasing the relative strength of this incentive, given its importance to Clean Power 2030, and ensure the incentive is focused on the delivery of the agreed connection dates. One example of this could be tracking the capacity, which facilitates the successful connection of CP30 projects.

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 currently does not accurately reflect industry sentiment towards the TOs' delivery, we encourage Ofgem to find another means of assessing this accurately. Retaining a reputational incentive is key as Generators cannot rely on NESO to manage the connection adequately, 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 the 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 not all customers respond, and measures to improve response rates need to be employed to ensure the sample is a fair representation of all customer experiences. In addition, Generators often report issues related to NESO as opposed to TO engagement. More targeted questioning and sending the surveys at more appropriate milestones, such as when the customer directly engages with the TO and is given a project manager and programme, could help alleviate this. We appreciate that Ofgem is aware of the need to improve the effectiveness of the surveys, therefore, we are suggesting improvements to the survey questions through the rating of clear departmental and procedural categories and improving the reach of the surveys, as well as transparency on how they are conducted.

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. A clear dashboard of project delivery should be set up, highlighting key details such as adherence to project delivery dates and budgets, and the scale of slippage on these. In addition, Ofgem should commit to undertaking a review of NESO and TOs' historical performance in meeting contracted connection dates and consider whether further coordination is required.

Innovative incentive

There is some concern across industry around the added value of a highly subjective, innovation incentive. While the incentive varies somewhat from existing incentives focused on innovation projects, there is already a considerable amount of funding within the RIIO framework apportioned to promote innovation. 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 some TOs, having 1% return of equity subject to a subjective panel decision represents too high a risk for the potential reward. Furthermore, it replicates some of the aspects of the Total Expenditure (ToTex) mechanism but with more uncertainty. To date, considerable sums have been spent on innovation by the TOs, but the transfer of that investment into Business as Usual (BaU) ways of working is not clear to customers. The integration of innovative methods into BaU needs to be accelerated, and information should be publicly available to provide transparency on this process. Additionally, a strong pipeline of innovations needs to be maintained to ensure continuous improvement. Further clarity is needed from Ofgem on how the incentive will work in practice. For example, annual reporting against set criteria as evidence of appropriate TO action throughout the price control, and not just before a panel assessment.

Finally, if the incentive were to be implemented, Ofgem should revisit the minimum £ 10 million threshold on consumer benefit. The schemes being delivered by TOs are high value, delivering large boundary transfers whilst reducing large amounts of constraint costs. A £10 million threshold seems disproportionally small in comparison. Additionally, a higher threshold would likely drive more considerable, strategic innovation as opposed to incremental innovation. We encourage Ofgem to consider this and the other elements raised around innovation, as opposed to a subjective, blanket incentive, and we invite the regulator to take note of suggestions for more targeted network efficiency innovation below.

Force majeure

We 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 insufficient to ensure the TOs deliver the reinforcements for CP30 on time. Specifically, on the 2.5% of the forecast ToTex lump sum reward for on-the-day or before delivery, we are not overtly opposed to its inclusion, but believe 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 Contracts for Difference (CfD) timings.

As 2.5% is being budgeted as a potential bonus for on-time delivery, it is logical 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 the consumer, without sufficient compensation/incentive mechanisms to ensure timely grid connection, developers will be pricing in the risk of delay into CfD bids, which consumers ultimately pay. While the network needs to be investible, Generators face the same question for projects. The network is expected to be delivered on 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 supportive of the introduction of a licence obligation on TO coordination with NESO on the CSNP, with the prerequisite of cross-examining against existing obligations in the System Operator Transmission Owner Code (STC) to avoid duplication. However, the more pressing issue is coordination between TOs and Generators that are each engaging with communities and aligning project timelines. We are keen to work with Ofgem to ensure a robust incentive can be developed to deliver 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 the Government, while also constructively engaging with the public.

We understand that existing mechanisms are in place to encourage TO coordination, but, as evidenced by recent project misalignments such as in the Holistic Network Design (HND), 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 that 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 to present a united renewables position to communities.

In the short term, we encourage Ofgem to develop guidance in best practices on project coordination, as well as incentives to adhere to such guidance and appropriate appeals routes to Ofgem to report on a lack of collaboration. In the medium to longer term, a much more holistic approach needs to be taken to embody the Government's whole system plan and deliver in harmony.

In addition to incentives on the TOs, Ofgem needs to enhance NESO's role in orchestrating the delivery, engagement and communication of infrastructure to communities and relevant delivery parties as part of its overall responsibility for the determined network designs.

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 levels for Generators and which require immediate solutions.

Transparency of information on grid connection costs and delays

In recent years, Generators have seen grid connection costs rise sharply, often without a transparent breakdown of costs, even when requested. One example is a 450% increase over the span of one year, 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 jeopardising 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 incentivise keeping these low/managed.

Consistent publication of network models, inputs, outputs and assumptions would allow industry a far better understanding of decisions and outcomes. This would enable the industry to better support the network in additional ways, such as through the timing of construction, operation, and maintenance. It would also allow greater insight and the potential to reduce unintended consequences that might not otherwise be detected until they happen. Implementing a provision of information incentive could, in the first instance, alleviate the uncertainty of forthcoming costs but also help in managing these.

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 advocate 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, TOs. At present, both TOs and Generators are pricing in risk of delay, duplicating the cost to the 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. Thus, pricing in risk for non-compensated grid delays is falling the consumer through inflated CfD bids as opposed to through cheaper, TO-related mechanisms, which have access to a lower cost of capital. Generators need more thorough commercial protections that align with those of their European counterparts to secure financing for projects in the UK.

Network capacity incentive

TOs have significant potential to contribute to reducing short-term constraints; however, at present, this is not incentivised. The Connections Service Accelerator, as drafted by DESNZ, works with TOs to identify innovative means for additional capacity for demand connections, proving there is scope for improved service and efficiency in the existing network. While the SO:TO incentive improves network access planning constraints, it is not explicitly reported on and only looks at outages.

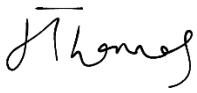
We encourage Ofgem to consider mechanisms to incentivise the TOs to optimise the efficiency of the network and network utilisation, for example, relating to the operational or planning capacity of a circuit versus its average power flow. The deployment of solutions such as Direct Line Rating (DLR), Active Network Management (ANM), Smart Wires, intertrips, etc. could deliver real value if incentivised through some form of constraint reduction mechanism.

Finally, we ask that Ofgem prioritise the conclusion of the end-to-end review, with a focus on the cultural and performance improvements required to meet the CP30 challenge. The variety in portfolio between the TOs, notably between England and Scotland, in terms of project complexity and volume, requires a tailored approach to the framework for the most efficient connection across 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, notably on measures for grid delay compensation, and would be happy to discuss our response in more detail.

Yours sincerely,



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[i] As evidenced within the research report, 'How will SP Energy Network's RIIO-T3 investment plans impact the wider UK economy?', by Antonios Katris, Karen Turner and Anas Karkoutli