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Future Network Regulation
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31 October 2022

Dear Akshay

Open Letter: Future Systems and Network Regulation

We (SSEN Transmission)¹ welcome the opportunity to respond to Ofgem's open letter on the future of network price controls and on whether the current arrangements remain fit for purpose as we enter a decade of significant change.

This letter provides detail on our view of the regulatory framework that is currently operating in Electricity Transmission (ET) and why we believe remaining on the positive path of transformation from a periodic ex ante settlement whilst retaining RIIO² principles will continue to enable progress towards Net Zero. We look forward to ongoing engagement with Ofgem and our stakeholders on this important issue.

Our north of Scotland transmission network has a pivotal role to play in supporting delivery of the UK and Scotland's Net Zero targets. By 2050, the north of Scotland is expected to deliver 40GW of low carbon energy capacity and our network alone has the potential to contribute 10% of emissions abatement required for Net Zero for the whole of the UK by 2050³. By transitioning to Net Zero we will not only play an essential role in addressing the **climate crisis**, but also in tackling **energy security** and **affordability** - vital to our consumers and stakeholders - by replacing fossil fuel imports with cheaper domestic renewable energy. We are also acutely aware that we must continue to maintain the **resilience** of our electricity transmission network to ensure it can accommodate a flexible and intermittent generation mix.

The regulatory framework is crucial in driving the desired behaviours, actions to deliver on these targets and stakeholder expectations, and the central question Ofgem asks is:

whether it continues to be practical and proportionate to follow periodic processes across the full remit of company activity when wider system challenges indicate a growing proportion of investment activity that requires decisions to be made in a faster and more coordinated manner?

The simple answer for ET is no, and we support ongoing adaptation of an already significantly evolved regulatory framework in ET, which currently does not use the periodic process across the full remit of our activities.

¹ This response is prepared on behalf of SSEN Transmission (the trading name for Scottish Hydro Electric Transmission) and part of the SSE plc Group. We are responsible for the electricity transmission network in the north of Scotland, maintaining and investing in the high voltage 132kV, 220kV, 275kV and 400kV electricity transmission network.

² Revenue = Incentives + Innovation + Outputs

³ [North of Scotland to Contribute up to 10% Towards UK Net Zero Target - SSEN Transmission \(ssen-transmission.co.uk\)](https://www.ssen.co.uk/north-of-scotland-to-contribute-up-to-10%-%20towards-uk-net-zero-target-%20-%20ssea-transmission)

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While the RIIO principles of an incentive and output-based framework have applied to the full remit of ET company activity, setting allowances at periodic reviews has not been applied across the full remit, with the role of re-opener mechanisms being significant⁴. In RIIO-T1 over two thirds of our totex⁵ allowance was set using re-opener mechanisms and in RIIO-T2, we forecast that almost half of our forecast totex allowance will be set using re-opener mechanisms. During 2022 we are hoping to see further positive and progressive reform in the regulatory framework from Ofgem, working in conjunction with the TOs and BEIS, on implementing the Accelerating Strategic Transmission Investment (ASTI)⁶ framework to support delivery of the co-ordinated and centrally planned Holistic Network Design (HND)⁷. The ASTI recognises the requirement to respond to the accelerated increase in offshore wind capacity and the need to provide early certainty to TOs, and crucially our supply chain, in order to deliver by (or close to) 2030. The future regulatory framework, including what is and what isn't under the remit of a periodic price control review, for ET has potential to provide even better outcomes for consumers with further refinement of the currently changing framework whilst remaining consistent with Ofgem's objective of ensuring decisions are taken in a faster and more coordinated manner.

The open letter correctly identifies periodic reviews as working '*well in relatively forecastable environments*' and so we consider which aspects of our remit remain relatively stable, consistent, and repeatable over a longer period allowing to relocate resource and effort to investment activity requiring the faster and more coordinated decision making. At this early stage in the review process, we provide an initial view on suggested targeted reforms to the current RIIO framework in our response to question four including: utilising and expanding Ofgem's ASTI framework for major load investments to include not only those identified by National Grid ESO, and in future the Future System Operator (FSO); reformed uncertainty mechanisms for other load related expenditure; a 10-year periodic review for non-load expenditure with a review after five years; and retaining the five-year periodic review for operational expenditure (inspections, repairs, maintenance etc) and for reviewing financial parameters. We provide a more detail in direct response to the questions within the attached Appendix.

It is with the above in mind, we highlight the following in response to the points raised within Ofgem's open letter about the regulatory framework from 2026 onwards:

- **Electricity Transmission is on a significant growth path of and a different path** to that of Distribution and Gas Transmission and this is best recognised via different price control arrangements.
- **Regulatory stability must be valued appropriately.** Creating certainty in the regulatory framework is essential in keeping costs down through certainty for investors and access to the supply chain. This is increasingly important for ET as we seek to deliver accelerated network investment.
- **Recent positive progress regarding the new ASTI framework should be built upon with the potential to expand in scope and remit.** This will help ensure we continue to remain on an accelerated pathway consistent with Government targets and ambitions.
- **Customer and wider stakeholder needs remains critical to effective business planning.** A continued role for different stakeholder groups, such as the User Group, will be critical in ensuring companies are held accountable to stakeholder requirements.
- Further **review of how transmission projects move from conception and early decision** towards approval of need, for example expanding on the ESO/FSO's role to determine need for investment as potentially replacement for Ofgem's current LOTI needs case process.
- Considering **whether automatic adjustments to baseline allowances remain appropriate** (i.e. fixed rate unit cost uncertainty mechanisms) in the context of bespoke, large-scale projects driven by external influences.

⁴ Re-openers were established in recognition of a requirement to set allowances when there is greater certainty of need and costs, to avoid windfall gains and losses for both consumers and companies.

⁵ Totex is a regulatory term that means total allowances (i.e. capital + operational expenditure). RIIO-T1 percentage based on 2021/22 prices, with the equivalent figure for RIIO-T2 on a nominal basis. Note these figures are an estimate and subject to change.

⁶ [Consultation on accelerating onshore electricity transmission investment | Ofgem](#)

⁷ [The Pathway to 2030 Holistic Network Design | National Grid ESO](#) provides early certainty on the high level design on what network must be built to connect 50GW of offshore wind to the GB system to reach ambitious 2030 targets by 2030.

- **Financeability must remain a key part of the regulatory framework**, in line with Ofgem's statutory duties to consider both debt and equity financeability requirements. This includes ensuring efficient debt costs are fully funded and the return on equity attracts the investment to deliver Net Zero⁸.
- **Inflation protections must be retained over the long term to keep costs lower for consumers than they would otherwise be without inflation protection.** We note Ofgem intend to consult in January 2023 on the treatment of inflation within price controls and we continue to have concerns about how this will impact on risks and therefore costs to energy networks and therefore consumers. Ofgem must retain stability in the regulatory regime over the long term to ensure investment is retained and attracted compared to other sectors across the UK and Europe which continue to have inflation protections.

We are happy to discuss any of the points raised within this response at Ofgem's earliest convenience.

Yours sincerely

Stuart Cochrane
Regulation Manager

⁸ We noted in our response to the ASTI consultation there are financeability concerns over the RIIO-T3 period due to the scale of capital investment. we continue to be concerned with the current market conditions and low cost of equity allowance in RIIO-T2 to retain and attract the necessary investment to transition to NetZero.

Appendix – detailed response to consultation questions

1. Do you have any views on the strategic issues we will face in the development of the next price control review process?

We agree with Ofgem's view that the energy system will change a great deal in the coming decades. As an industry, we are facing a critical moment on the pathway towards Net Zero and aiming to deliver a network that will benefit all parts of society. While we note achieving Net Zero should remain our collective primary focus, we do so noting the interdependencies linking the traditional components of the energy trilemma of affordability, sustainability and security of supply have intensified. Investing in infrastructure to achieve a Net Zero system will result in affordable and sustainable electricity thus benefitting society, while ensuring GB energy security and resilience. This need has been corroborated by both the Climate Change Committee and National Infrastructure who recognised the urgent need to *"unblock the delivery of infrastructure essential to efficient operation of the electricity system, including networks, that will ultimately reduce energy bills to households and businesses."*⁹

In our view, the need for investment is clear. Following the publication of the HND and Network Options Assessment (NOA) refresh by National Grid ESO, there is a collective package of investments identified as a bare minimum to maintain a Net Zero pathway. This creates an investment "floor" required for the transmission network and there will be additional investment required to enable further generation to connect to the network in a safe, complaint manner. The transmission network will need to expand rapidly to ensure government Net Zero targets are met.

In keeping with the above, and in developing the next price control, we would encourage Ofgem to consider longer-term cost benefit to consumers of making the optimal investment decisions now rather than focusing solely on lowest cost options. As noted above, the need for investment in the transmission network has never been clearer. We must accept an 'investment floor' as the minimum amount of cost involved (across our entire remit) in ensuring we remain on the path to Net Zero. The uncertainty mechanisms through the price control should be focussed on seeking these are delivered in the most economic and efficient manner for consumers (including whole system optimisation).

As noted above, achieving Net Zero should remain our collective focus but we also believe there are additional strategic issues that Ofgem should consider when developing the next networks price control:

- **Affordability** - Net Zero will not only play an essential role in addressing the climate crisis, but also in tackling energy security and affordability - vital to our consumers and stakeholders - by replacing fossil fuel imports with cheaper domestic renewable energy. The cost of living is a significant challenge to the UK. In the short term there are significant cost pressures, as shown by the headline rates of inflation, that will lead to bill increases for consumers. Beyond this, there is a need to recognise that the investment in network infrastructure will in the longer-term lead to significant bill savings for consumers. In the electricity market, wholesale prices should fall as we transition to a decarbonised electricity system with home grown electricity generation and less reliance of expensive fossil fuel generation.
- **Resilience** – the regulatory framework, including network price controls, must continue to maintain network reliability and resilience to external factors like weather, and to the new challenges we face as networks accommodate a more flexible and intermittent generation mix. Any change to the regulatory framework must seek to ensure that this is maintained for the benefit of consumers.
- **Availability of financial capital** – the regulatory framework must maintain financeability and continue to attract appropriate levels of financial capital. The rush to achieve Net Zero, and away from reliance on hydrocarbons is leading to significant amounts of investment globally. The UK must remain an attractive place for investment and a stable regulatory framework is a key enabler.

⁹ [CCC and NIC write to Prime Minister, Rt Hon Elizabeth Truss MP - Climate Change Committee \(theccc.org.uk\)](https://www.theccc.org.uk/publications/letters-to-the-prime-minister/ccc-and-nic-write-to-prime-minister-rt-hon-elizabeth-truss-mp/)

- **Cyber and physical security** – the risks to security are increasing as a result of geopolitical developments over the last year. Critical national infrastructure may become more a target to outside influences both from cyber and physical threats.
- **Data and digital** – data and digital technology developments could bring significant benefits for network companies. We need data to effectively engage with stakeholders on their future system needs; to develop and deliver the most efficient, economic, co-ordinated whole system investments; to manage asset risk and maintain the vital operation of our transmission network.

2. Do you have any views on the case for change we have outlined?

Ofgem's open letter states *"the RIIO framework has been successful in delivering service improvements, has delivered investment at a scale needed by consumers, and encouraged companies to innovate and deliver efficiency improvements."* We agree with this assessment and therefore question whether *"it may not be the most appropriate model for the energy system we need to build."* It would be useful for stakeholders to understand what, in Ofgem's view, the RIIO framework will prevent in terms of the strategic issues identified. As noted in response to question one, we agree that there is significant transformational change occurring in the energy system, but we are unclear as to the reasons (insofar as it relates to ET) the RIIO framework could not enable this change, as there is already demonstrable change under the framework.

For example, insofar as ET is concerned, a significant proportion of allowances are already set outside the periodic RIIO price control process. While the RIIO principles of an incentive and output-based framework have applied to the full remit of ET company activity, setting allowances at periodic reviews has not been applied across the full remit, with the role of re-opener mechanisms being significant.

We agree with Ofgem's assessment the re-opener process is currently resource intensive for all parties, and we suggest targeted reforms to the current RIIO framework in our response to Question 4. This includes utilising and expanding Ofgem's ASTI framework for major load investments to include not only those identified by National Grid ESO, and in future the Future System Operator (FSO); reformed uncertainty mechanisms for other load related expenditure; a 10-year periodic review for non-load expenditure with a review after five years; and retaining the five-year periodic review for operational expenditure (inspections, repairs, maintenance etc) and for reviewing financial parameters.

Competition in onshore transmission assets

Ofgem notes that different types of uncertainty may potentially lead to a different form and scope of regulation for different sectors, such as the ability to introduce competition as an alternative to regulation (where appropriate). Aside from our concerns as to whether competition will lead to benefits for consumers, introduce risks to security of supply through fragmentation and lead to delays while lengthy tenders are run – it remains our view that there will always be a large role for Ofgem in regulating the monopoly networks, (including competitively appointed TOs). There is a need for a clear decision maker, that uses clear evidence of the benefits/costs of competition relative to TO delivery under RIIO. Industry participants (including TOs) require clear direction on the roles and responsibilities of each participant and this includes across the FSO and TOs.

Institutional and energy system governance reform through the Review of Electricity Market Arrangements (REMA) and set up of the FSO is in addition to current activities undertaken in the market and are not a transfer of responsibilities between participants. It is critical that Ofgem provides clear direction on the roles and responsibilities of each participant and avoids overlap. The regulatory framework must remain flexible to accommodate the outcome of industry reform that is currently being considered.

Whole system optimisation

Ofgem notes the importance of whole system optimisation. It is our view that the future regulatory framework and price control must recognise that whole system optimisation will mean different things in different parts of the UK.

The north of Scotland will not experience material demand changes due to heat or transport decarbonisation but will face the big impacts of generation storage investment including co-location, alongside the current lower gas penetration, which means the evolution of the energy network in this part of the UK will be different to that in London where there is significant demand. We believe the RIIO framework does not prevent whole system planning, but it also does not allow for local circumstances.

The importance of whole system is that we must, as an industry, achieve the most appropriate balance of outcomes at the lowest cost for each sector. We recently published our new Whole System Strategy¹⁰ where we set out that we undertake assessments, as part of our Investment Decision Making Methodology (IDMM), on the most efficient decision for investment across the whole system and consider trade-offs between infrastructure and service solutions. It is also worth recognising that whole system optimisation will naturally require more time and effort when compared to taking a narrower single sector view. This is not recognised within the existing price control arrangements and TOs are underfunded for identification and development of whole system opportunities.

We ask that Ofgem provide further detail on its expectations around whole system optimisation, so that all stakeholders and network companies are clear on a consistent approach to ensuring whole system outcomes for consumers.

3. Do you have views on whether the changes to the electricity or gas sectors mean we should consider alternatives to the approach taken in the RIIO-2 price control?

As noted, within our response to question one, insofar as ET is concerned, we are actively adopting an alternative approach when compared to that taken for the RIIO-2 price control and believe the RIIO framework can flex to accommodate the transformational change to the energy system. We strongly encourage Ofgem to build on the progressive changes in recent years, on what is subject to ex-ante review and the use of uncertainty mechanisms. Targeted reforms to the RIIO framework (while maintaining the principles of output, incentive-based regulation) will enable the significant investment required in the transmission network whilst managing whole system optimisation and uncertainty.

In keeping with above, any future price control must recognise the differences across different sectors. There is a strong case for continuing sectoral differences between electricity transmission, electricity distribution, gas transmission and gas distribution. Each sector is on a different pathway with a different role to play in seeking to achieve Net Zero. The future price control arrangement must reflect these differences. We would encourage Ofgem to explore this in more detail in the early 2023 consultation.

In the meantime, we note the balance between baseline and uncertainty mechanisms for electricity TOs, and we agree it is no longer practical to have a full review of company activities under the periodic review process. In ET, it has not been for some time, as under both RIIO-1 and RIIO-2, load investment was largely assessed through Strategic Wider Works (SWW) and the Large Onshore Transmission Investment (LOTI) reopener mechanisms.

¹⁰ [Taking a Whole System Approach: SSEN Transmission publishes new Whole System Strategy - SSEN Transmission \(ssen-transmission.co.uk\)](https://www.ssen-transmission.co.uk/Taking-a-Whole-System-Approach-SSEN-Transmission-publishes-new-Whole-System-Strategy)

4. Are there any broad frameworks or options that you think we should consider, including variants and alternatives to those we set out?

We provide some high-level feedback on the RIIO framework, and areas that must apply regardless of which specific option is being considered. We then provide specific comments on the four options contained within the open letter, including our initial, early thoughts on specific changes to the transmission price control.

Retain best practice of RIIO

We believe the RIIO framework needs to continue to change, and that targeted reforms are needed to deliver the energy system of the future. The price control process sets clear standards that network companies need to achieve through developing best practice. Any broad regulatory framework benefits from the regulatory toolkit that can be deployed. There are several areas that we wish to highlight¹¹, that demonstrate the successes of RIIO and the regulatory toolkit, which enables significant benefits for consumers:

- **The regulatory principles that underpin RIIO are right** - The regulatory principles that underpin the RIIO framework continue to be the right ones to enable the significant transformation in the energy system. Ofgem recognises the successes of RIIO in the open letter in *“delivering service improvements, has delivered investment at a scale needed by consumers, and encouraged companies to innovate and deliver efficiency improvements”*.
- **Periodic reviews continue to challenge companies to deliver for stakeholders** - Periodic reviews will continue to challenge companies to put their best foot forward, ensuring transparency to engage with stakeholders and consider their views when developing plans.
- **Certainty is achieved through central planning** - There are benefits in the transmission sector of having a central plan and focus of direction and that is a key role of the FSO is in creating certainty to enable investment.
- **Uncertainty mechanisms help to avoid windfall gains and losses** - The current RIIO framework, which involves significant use of uncertainty mechanisms, remains the right path for transmission and there is a clear need for it to be built on ahead of the next price control. Uncertainty mechanisms help address the uncertainty of need and cost to protect both consumers and companies from windfall gains and losses.
- **Stakeholder led plans** - There are significant benefits to engaging with our stakeholders through forums such as our Network for Net Zero group (which evolved from our T2 User Group). This positive engagement with stakeholders must continue as it ensures the voice of stakeholders is heard. The challenge put to network companies at periodic reviews is a benefit, and the review also allows for benchmarking between companies so that lessons can be learnt and shared across the industry, setting new standards for companies to aspire to.
- **Wider regulatory mechanisms** - A good example of the benefits of challenge undertaken at the RIIO-2 price control was the introduction of setting new Science Based Targets (SBTs) and Consumer Value Propositions (CVPs) which has led to wider benefits to society, including the introduction of our biodiversity net gain policy. Another good example is the agile Network Innovation Allowance (NIA) allowing network companies to make decisions as to which innovation projects we take forward as research develops.

It is clear that, depending on the nature of the investment, some of these tools are better used than others. It is therefore not a binary choice between a periodic review or not and the choice of tools needs to be considered from a wider context.

We ask that these regulatory tools continue to be kept and deployed where they can be best used as Ofgem develops its thinking.

¹¹ We note that this list is not exhaustive and there are other tools that deliver benefit for consumers.

Resource burden

There is a resource burden associated with any price control process in order to develop a plan that is beneficial for stakeholders and delivers to their expectations. Periodic ex ante price reviews help drive the best out of the industry for the benefit of consumers and wider society. It is correct that this process is resource intensive to set the right standard and ensure the right settlement for both the consumer. However, that does not mean there are not clear ways to make the process more efficient.

We are developing our Investment Decision Making Methodology (IDMM) as a tool to form the basis of future investment in our network (considering a multitude of different factors). The IDMM combined with early up-front engagement with stakeholders will enable us to make decisions about the future of our network in an efficient, stakeholder focused manner. There is an opportunity for Ofgem to agree to the principles of our IDMM and what it seeks to achieve prior to the development of Engineering Justification Papers (EJPs as required during RIIO-2) and our business plan submission to help streamline the price control process and reduce the resource burden.

We note that not all costs should fall under the periodic review, and that there are improved ways of making decisions in an agile, flexible manner for the benefit of consumers. The ASTI framework currently being developed within ET is a good example of innovative regulatory thinking aimed at delivering significant benefits to society. It is a progressive and positive change which will create certainty of need to expand the network. There is a strong case for the ASTI framework to remain the funding model for the development of large transmission infrastructure projects when they are identified through future Centralised Strategic Network Plans (CSNPs). We recognise the burdensome nature and the volume of reopeners, however there is an opportunity to build on the progress that has been made through developing the ASTI framework and make improvements to wider uncertainty mechanisms where necessary. Therefore, we encourage Ofgem to explore these opportunities as its thinking develops.

The regulatory framework must ensure companies remain financeable

Ofgem should ensure it considers financeability in line with its statutory duties, and any changes to the regulatory framework must deliver the strong investment grade credit rating and market based returns to equity investors. The financeability assessment undertaken during price control reviews is a key pillar of the regulatory framework and it is our current view that it should remain subject to a five-year periodic review. But it has presented challenges. Ofgem has utilised notional company definitions at times which are inconsistent with reality, such as the use of Index Linked Debt (ILDs), low gearing ratios, and equity injections to mitigate credit rating downgrades. Between these elements and current market conditions, credit financeability is a concern and Ofgem must ensure companies can attract the scale of investment and financing to deliver Net Zero.

We believe Ofgem should continue to undertake robust and plausible scenario analysis to stress test and ensure companies can continue to finance the necessary investment required to achieve the significant transformation in the energy system required over the coming years. Market evidence over RIIO-T2 and now through the RIIO-ED2 process illustrate that the Cost of Equity has been set too low, and without action in setting the RIIO-T3 price control, will cause a serious financeability concern. Changes will likely be required to financial parameters beyond the cost of capital to support the investment necessary to deliver Net Zero including the HND and ASTI programme of investment by 2030. The scale of investment will only increase to deliver Net Zero by 2050 and Ofgem should adopt a longer-term view of financeability consistent with its approach to the HND/ASTI.

We note that there is a consultation being undertaken by UKRN to evaluate the approach to setting the Cost of Capital across regulatory sectors. We have seen inconsistencies being applied in PR19 and in RIIO-T2 and in particular we saw the CMA reach different decisions despite there being similar evidence in both price control appeals. We would encourage Ofgem to engage with the wider sector alongside UKRN to ensure this is tailored to suit sectors that are delivering a larger scale of investment and therefore have to attract the capital necessary to finance such investment.

RIIO-T3 Planning

Regardless of the option decided upon, there is a need for Ofgem to be clear on the process and timetable for the next price control in order for stakeholders to be able to begin planning. A stakeholder led business planning process is essential in ensuring we continue to deliver benefits for consumers in line with their expectations. It helps us to understand our place in society; holds us to account; ensures we can adapt to the rapidly changing external environment in which we operate; and ultimately improves the services we offer our stakeholders and the decisions we take on their behalf.

We would welcome Ofgem providing further details in its early 2023 consultation on the expected timetable, and expectations on companies for the RIIO-T3 process to allow us to begin the development of our business plan and engage with stakeholders. Delays to this could reduce the quality of business plans. The timetable must be carefully considered to avoid stop/start investment cycles and delay to service improvements due to regulatory uncertainty. There is a need for a sector specific methodology consultation Q3 of 2023 to ensure the development of plans can continue at pace.

There is a need for the next price control process to be focussed on material areas and ensuring the process is effective and efficient. Ofgem should look to engage and agree policies early, as well as methodologies for setting the price control. For example, our IDMM will underpin our proposed expenditure for the next price control and ensure drafting of EJPs can begin in 2023. Clearly set engineering standards must be set out to ensure the EJPs are in line with Ofgem's expectations, therefore there is a need for standardised processes and methodologies that are agreed early with companies ahead of business plan submission.

Initial high-level thoughts on Ofgem's options

Our own views are evolving, and we will develop them over the coming months ahead of future Ofgem consultations. Our initial high-level views on the four options consulted on are:

- **Option 1: Continued used of periodic reviews, with RIIO being adapted where appropriate**
 - The principles of output and incentive-based regulation under RIIO are right, however some targeted reforms could help strengthen the framework.
 - RIIO must avoid stop/start investment or lengthy regulatory processes before allowances can be set, if we are to remain agile.
 - There has been significant progress and positive changes made through the introduction of ASTI in transmission, and we must build on these developments ahead of the next price control.
 - We note the complexity of RIIO, that some areas could be streamlined and that some aspects could be made stronger (for example to encourage innovation).

Building on Ofgem's option 1, we have considered how the regulatory framework could be structured in transmission specifically. We summarise our initial thoughts below but note that this is not extensive at this early stage in the review process:

- **Major Load** (including, but not exclusive to, centrally planned identified load from the NOA / CSNP process) – **to be funded under the ASTI framework**. This will initially evolve through HND FUE publication in 2023 and future CSNPs. However, projects that may have initially expected to have taken a route through the LOTI mechanism could go through ASTI. Infrastructure identified in the coming years will continue to be needed to be delivered at pace. The defining feature of the ASTI framework is early acceptance of need when it has been identified through a well-defined network planning process in the NOA. Once need has been confirmed, pre-construction funding pots and advanced construction allowances would be released to allow the development of strategic investments. RIIO principles apply but format of incentives may need to change. There would continue to be strong ex-ante incentives around efficient cost and delivery.
- **Other load** (i.e not under NOA/Central Strategic Plan) – **to be funded through refined volume driver and uncertainty mechanisms** – and therefore not through the periodic review process. This will ensure that

decisions can be made in an agile, fast and flexible manner. There is also the need to review the volume driver due to the difficulties in predicting costs and defining scope.

- **Non-load – to be funded through a long-term ex-ante price control** - TO's submit plans for non-load expenditure in a 10 year business plan as part of RII price control setting, with a 5 year reopener to review if any material changes are necessary. This will ensure TO's have certainty on future investment funding.
- **Opex costs including Closely Associated Indirect (CAIs) and Business Support Costs (BSCs) – to be funded through a 5-year ex-ante price control** as part of the periodic review – reset every 5 years. Options to consider include reviewing the opex escalator mechanism.
- **Continue to review financeability** on a regular (e.g. 5 yearly) basis as part of a periodic review.

These proposals would still fit into a RII style incentives based price control, with targeted reforms to set price controls for particular elements of totex. We also feel specific reforms are needed to uncertainty mechanisms LOTI, MSIP and Cyber IT/OT to reflect that faster decision making is required. The LOTI mechanism could largely be replaced through the ASTI framework and by allowing the ESO (and in future the FSO) to confirm the need through its CSNP and CBA analysis. This would also help to reduce the regulatory burden and allow Ofgem to focus on assessing costs.

We will aim to develop our thinking over the next few months and provide further details to Ofgem in response to its early 2023 consultation.

- **Option 2: An alternative ex-ante incentive regime**
 - We would ask Ofgem to provide more detail on the option it is considering, however this appears to be more in line with rate of return regulation with adjustments for productivity based on benchmarking between network companies.
 - It is unclear if the benchmarking referenced on incentive rates would be restricted within the current price control sectors (e.g. within ET), or whether cross sector benchmarking would be carried out.
 - It would be useful for Ofgem to provide its definition of productivity and how it would measure performance, it is unclear if this measure would be similar to the ongoing efficiency adjustments made as part of the current RII process.
 - It is unclear how powerful the incentives that might be set under this regime, however as with all incentives, it would need to be calibrated appropriately.
 - We are unclear on how this would work when calibrating UMs. These would need to be calibrated periodically to ensure they are cost reflective and funding is set appropriately.
 - A combination of ex-post reviews and targeted reviews for strategic investments would lead to similar uncertainty that might occur under option 4 (see below)
- **Option 3: Greater user/stakeholder engagement (e.g negotiated settlements)**
 - We note that there was significant stakeholder engagement when developing our T2 plans and that this was a process over a long time period between various stakeholder groups, network companies and Ofgem.
 - It is unclear who network companies would be expected to negotiate with, and it is not currently in scope for the role of the FSO.
 - It is unclear whether the body set up to represent consumers would be able to represent them effectively.
 - Significant consumer research would be needed to be undertaken to understand what consumer sentiment and views are towards network companies and how that is evolving over time.
 - It is unclear what would happen in the event of disputes between network companies and the consumer representative.
 - It is unclear what the role of Ofgem would be in monitoring and developing the price control.

- **Option 4: Ex-post**
 - This model would create significant uncertainty for investors, at a time when investment is needed in infrastructure to enable the achievement of Net Zero targets. It does not feel like the right time to consider an ex-post model given the strategic issues that Ofgem has outlined.
 - It is unclear how Ofgem would decide what is efficient and inefficient spend, and disagreements around Ofgem decisions could lead to lengthy appeal/legal processes.
 - There is a risk that the regulatory process would remain complex and lead to delays.
 - There is a risk that the regulatory framework becomes a blocker to achieving Net Zero targets under this model.