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13 January 2025

Dear Alasdair

Response to Ofgem's Connections End-To-End Review Consultation – RIIO-T3 Incentivisation

SSE's Energy Businesses welcome the opportunity to respond and input to the RIIO-T3 connections incentives part of Ofgem's Connections End-To-End Review consultation. Please note SSEN's Transmission business is providing a separate detailed response.

We support the development of a robust incentive framework and recognise its value in driving desired outcomes effectively.

We agree it is prudent to consider all aspects of the connections process in an effort to drive faster connection times and a more effective overall connections process. The incentives framework is a key part of this and will have an important role to play.

However, we have concerns about introducing significant change to the incentive framework at this time given the level of change currently anticipated to the connections process and the unprecedented network investment required to put us on the pathway to deliver net zero.

We are in the closing stages of connections reform, which (if approved) is anticipated to reduce the existing queue of over 700 GW of projects to c.340 GW and establish a clearer 'map' of projects that Transmission Owners (TOs) will need to facilitate and connect within set (and succinct) timescales. We expect this to drive a change in TOs' focus and behaviours and place renewed (and welcome) attention on delivery.

However, against this moving backdrop (and wider planning reforms), we do not believe it is prudent nor possible to confidently determine the right incentives at this time. This lack of clarity over how the process will play out in practice and impact behaviours increases the risk of setting ineffective incentives, which could potentially lead to unintended or even perverse behaviours. Without this clear understanding, there is a real risk that misaligned incentives could undermine progress rather than support it. We are conscious of the potential implications that this would have on GB's delivery of the Clean Power Plan for 2030 and, longer term, the Strategic Spatial Energy Plan (SSEP). The TOs' RIIO-T3 business plans mark a significant increase in investment relative to the previous 5-years; in some cases, up to a five-fold increase. We are extremely mindful of the challenges in delivering this unprecedented level of investment

and the criticality to project developers of ensuring that the TOs are able to do this. As such, we are wary (and indeed reluctant) to suggest any arrangements that might thwart or impede this delivery.

We see the RIIO-T3 Price Control as a transitional period for TOs.

Instead, we believe the focus should be on using RIIO-T3 (or at least the early years of T3) to gather valuable insights and build a strong foundation for future decisions, whilst enabling TMO4+ to be fully embedded. The early years of RIIO-T3 could be utilised to systemically monitor and gather data from TOs and connecting users and build a robust foundation to develop enduring incentives from a position of knowledge and experience, ultimately reducing the risk of unintended outcomes.

A potential solution could be an evolution of the Quality of Connections Survey (QoCS) ODI-F in a form similar to the Price Control Performance Review proposed in this consultation. This could facilitate effective data reporting and collection. However, it should be combined with regular reviews of the evidence on TO performance, as opposed to an *ex-post* assessment, to ensure that the incentive framework remains adaptive to emerging insights.

In our view, establishing this evidence in the early years of RIIO-T3 would create a more robust foundation for introducing effective incentives and reputational metrics in the later years of the price control and/or RIIO-T4. For the avoidance of doubt, we do not believe it would be appropriate to introduce penalties within RIIO-T3 given the level of change and critical level of investment required. However, by advocating for this phased approach, we believe it would enable the design of a full regulatory framework, with financial rewards and penalties in RIIO-T4 informed by robust data and aligned with clearly defined, TO-controllable milestones.

We see the RIIO-T3 Price Control as a transitional period for project developers too.

In taking the approach outlined above, we recognise the importance of taking equal and opposite steps for project developers. It is crucial that project developers are not unduly subject to unreasonable financial exposure during this time, particularly where this risk is the result of third parties. While we acknowledge and continue to support the merits of a financial instrument to demonstrate a project's commitment to the connection queue, it stands to reason that this is contingent on commensurate, clear and enforceable repercussions in the event that TOs fail to meet their respective milestones / deliverables within agreed timeframes.

To reflect this 'softer' (but more appropriate) approach for the purposes of the transitional RIIO-T3 period, we believe project developers must in the interim have similar / equivalent protections, i.e. project developers must be allowed to exit the connections queue without being exposed to undue financial repercussions, particularly where this is being driven by network changes. Project developers would have to exercise this right within a certain and reasonable timescale following notification from the TO of any changes, but providing they did this, they would not be unduly exposed to financial consequences.

For example, this would give project developers the opportunity to leave the connections queue without (undue) financial penalty where significant changes occurred to the initial connection quote.

These complementary measures would better reflect the transitional nature of RIIO-T3 for project developers and network companies alike and the need for an equitable framework during this period of significant change. Further, we believe it would also provide an opportunity to take stock of any further

changes necessary to TMO4+ and the enduring incentive framework to align with the SSEP as it emerges over the coming months. However, for the avoidance of doubt, this in no way serves to undermine the need for a strong and robust regulatory framework in the longer-term and we are committed to working with Ofgem and other stakeholders to deliver this.

We are keen to engage with Ofgem further as its End-To-End Connections Review progresses.

We will of course respond to Ofgem's End-to-End Review consultation in full by 12 February. However, we hope this is helpful input at this initial stage. Should you wish to discuss any aspect of this response, please do not hesitate to get in touch; we would welcome the opportunity to discuss our feedback to this consultation with you.

Yours sincerely,

Dora Gencheva
Senior Regulation Analyst