

Consultation

RIIO-3 Draft Determinations – Scottish Hydro Electric Transmission (SHET)

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The next set of price controls for the Electricity Transmission (ET), Gas Distribution (GD) and Gas Transmission (GT) sectors will cover the five-year period from 1 April 2026 to 31 March 2031 (RIIO-3). In December 2024 the network companies in these sectors submitted their RIIO-3 Business Plans for this period to us. We have now assessed these plans.

This document, and others published alongside it, set out our Draft Determinations for the RIIO-3 price controls. These are for consultation and we would like views from people with an interest in RIIO-3 by 26 August 2025. We particularly welcome responses from consumer groups and energy industry network users. We also welcome responses from other stakeholders and the public.

Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Consultation – RIIIO-3 Draft Determinations – Scottish Hydro Electric Transmission (SHET)

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1. Introduction

Purpose of this document

- 1.1 This document sets out our Draft Determination consultation positions for the price control areas that are specific to Scottish Hydro Electric Transmission (SHET) covering the five-year period from 1 April 2026 to 31 March 2031 (RIIO-ET3). All figures in this document are in 2023/24 prices except where otherwise stated.

What are we consulting on?

- 1.2 In Chapter 2 we set out the SHET-specific outputs and incentives that we propose should form part of RIIO-ET3, including Licence Obligations (LOs), Price Control Deliverables (PCDs), Use-It-Or-Lose-It (UIOLI) allowances and Output Delivery Incentives (ODIs).¹
- 1.3 Chapter 3 describes our assessment of SHET's Business Plan against the RIIO-3 Business Plan Incentive.
- 1.4 Chapter 4 sets out how we propose to manage uncertainty during RIIO-ET3 for areas of uncertainty that are specific to SHET. We do this through uncertainty mechanisms (UMs), specifically volume drivers, re-openers, UIOLIs, pass-through, or indexation mechanisms.
- 1.5 In Chapter 5 we summarise the outcome of our assessment of SHET's costs and engineering justifications for the RIIO-ET3 period.
- 1.6 Chapters 6 and 7 describe our assessment of SHET's innovation and digitalisation strategies respectively.

Navigating the RIIO-3 Draft Determinations documents

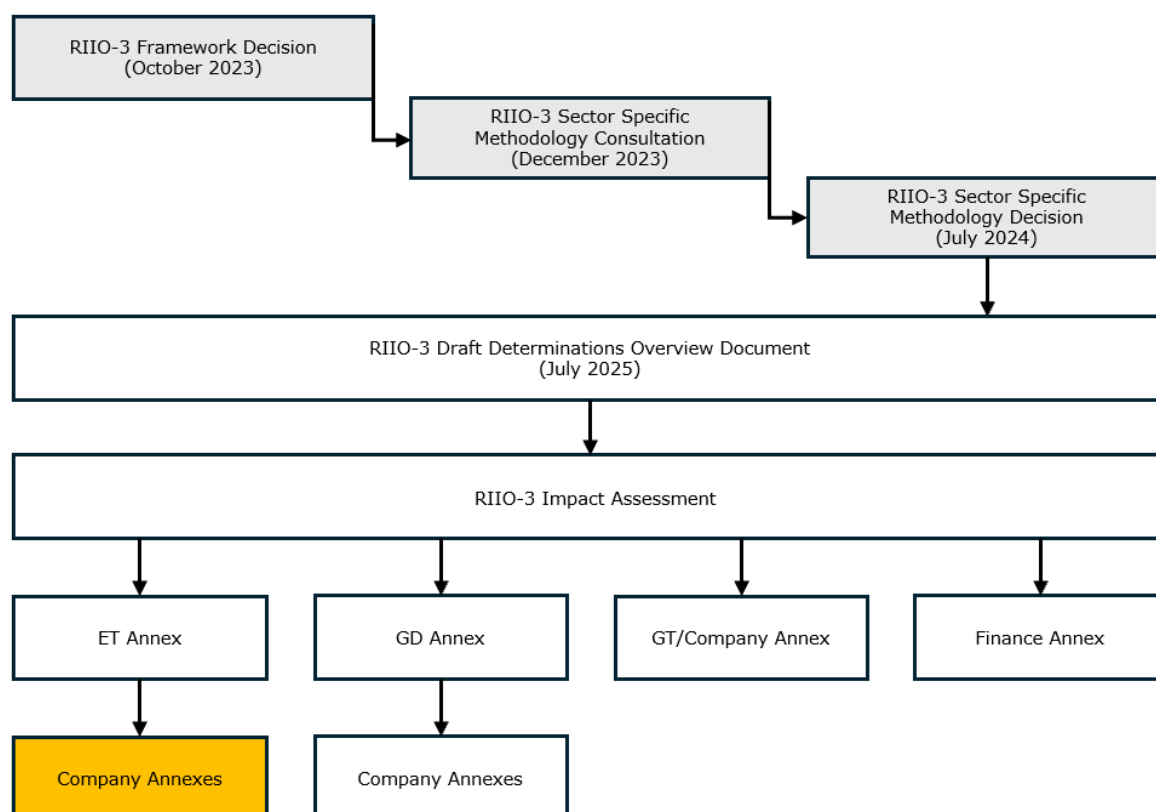
- 1.7 The RIIO-3 Draft Determinations are comprised of an Overview Document, a Finance Annex and sector annexes for ET, GD and GT. The sector annexes are underpinned by a RIIO-3 Impact Assessment, company annexes² and, where relevant, technical annexes. This document is the SHET Annex. Figure 1 below maps all documents relevant to our suite of RIIO-3 Draft Determinations, including the framework and methodology documents that have preceded it.

¹ ODIs can be either financial (ODI-F) or reputational (ODI-R).

² Throughout this document, 'company annexes' refers to the three TO specific annexes (their abbreviated names are NGET Annex, SHET Annex and SPT Annex).

- 1.8 Our Draft Determinations have considered all previous feedback from network companies and other stakeholders, including the reports from the Independent Stakeholder Groups (ISGs) that were established to challenge each of the network companies on their stakeholder engagement and business plans, and the feedback received in response to our RIIO-3 Call for Evidence.³ Further details on our approach to embedding the consumer voice is set out in the RIIO-3 Overview Document.

Figure 1: RIIO-3 Draft Determinations map



An Overview of SHET’s RIIO-ET3 Price Control

- 1.9 This section summarises the key aspects of SHET’s RIIO-ET3 Draft Determinations, setting out its cost allowances, outputs, UMs, BPI outcome and financing parameters.

³ <https://www.ofgem.gov.uk/call-for-input/call-evidence-electricity-transmission-gas-transmission-and-gas-distribution-business-plans-riio-3>

Table 1: Submitted versus proposed allowed baseline totex (£m, 2023/24 prices)

| Cost area | SHET submitted totex | Ofgem proposed totex | Difference (£m) | Difference (%) |
|---|-----------------------------|-----------------------------|------------------------|-----------------------|
| Core baseline totex | 4,141 | 3,074 | -1,067 | -26% |
| Network Innovation Allowance (NIA) | 25.5 | 20.0 | -5.5 | -22% |
| Pass-throughs, UIOLI and other ex ante allowances | - | 1,775 | - | - |
| Ex ante allowances | - | 4,869 | - | - |

Table 2: Proposed outputs package

| Output name | Output type | Sector(s) | Further detail |
|---|----------------------|------------------|-----------------------|
| Network Asset Risk Metric (NARM) | PCD, ODI-F and ODI-R | ET, GD, GT | Overview Document |
| Physical Security | PCD and re-opener | ET, GT | Overview Document |
| Cyber Resilience | PCD and re-opener | ET, GD, GT | Overview Document |
| Environmental Action Plan and annual environmental report | ODI-R and LO | ET, GD, GT | Overview Document |
| Strategic Innovation Fund (SIF) | UIOLI | ET, GD, GT | Overview Document |
| Network Innovation Allowance (NIA) | UIOLI | ET, GD, GT | Overview Document |
| Totex Incentive Mechanism (TIM) | ODI-F | ET, GD, GT | ET Annex |
| Operational Transport | PCD | ET, GD | Overview Document |
| CSNP-F Delivery | ODI-F | ET | ET Annex |
| Innovative Delivery Incentive | ODI-F | ET | ET Annex |
| Connections Capacity | ODI-F | ET | ET Annex |
| Insulation and Interruption Gas (IIG) emissions | ODI-F | ET | ET Annex |
| Energy Not Supplied (ENS) | ODI-F | ET | ET Annex |
| SO:TO Optimisation | ODI-F | ET | ET Annex |
| Network Access Policy (NAP) | LO | ET | ET Annex |

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| Output name | Output type | Sector(s) | Further detail |
|---|--------------------|--------------------|-----------------------|
| Landscape Enhancement Initiative (LEI) | UIOLI | ET | ET Annex |
| CSNP Coordination | LO | ET | ET Annex |
| New Infrastructure Stakeholder Survey (NISES) | ODI-R | ET | ET Annex |
| SF6 Asset Intervention Plan | PCD | NGET and SHET only | ET Annex |
| Atypical | PCD | SHET only | This document |
| Circuit Breaker | PCD | SHET only | This document |
| Existing Power Station Works | PCD | SHET only | This document |
| Substation | PCD | SHET only | This document |

Table 3: Proposed UMs package

| UM name | UM type | Sector(s) | Further detail |
|--|-------------------|------------------|-----------------------|
| Business Rates (prescribed rates) | Pass-through | ET, GD, GT | Finance Annex |
| Cost of debt indexation | Indexation | ET, GD, GT | Finance Annex |
| Cost of equity indexation | Indexation | ET, GD, GT | Finance Annex |
| Inflation Indexation of RAV and Allowed Return | Indexation | ET, GD, GT | Finance Annex |
| Ofgem licence fee costs | Pass-through | ET, GD, GT | Finance Annex |
| Pension Scheme Established Deficit | Pass-through | ET, GD, GT | Finance Annex |
| Tax Review | Re-opener | ET, GD, GT | Finance Annex |
| Real Price Effects (RPEs) | Indexation | ET, GD, GT | Overview Document |
| Digitalisation | Re-opener | ET, GD, GT | Overview Document |
| Resilience | Re-opener | ET, GD, GT | Overview Document |
| Cyber Resilience | Re-opener | ET, GD, GT | Overview Document |
| Co-ordinated Adjustment Mechanism (CAM) | Re-opener | ET, GD, GT | Overview Document |
| Net Zero | Re-opener | ET, GD, GT | Overview Document |
| Pre-Construction Funding (PCF) | PCD and re-opener | ET | ET Annex |
| Load | Re-opener and PCD | ET | ET Annex |
| Load | UIOLI | ET | ET Annex |

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| UM name | UM type | Sector(s) | Further detail |
|---|-------------------|--------------|----------------|
| CSNP-F | Re-opener and PCD | ET | ET Annex |
| Generation Connections | Volume driver | ET | ET Annex |
| Demand Connections | Volume driver | ET | ET Annex |
| Closely Associated Indirects (CAI) | UIOLI | ET | ET Annex |
| Business Support Costs | Re-opener | ET | ET Annex |
| Non-Load | Re-opener | ET | ET Annex |
| Independent Technical Adviser | Pass-through | ET | ET Annex |
| Community Benefits | Pass-through | ET | ET Annex |
| Entry and exit connection asset allowance | Volume driver | ET | ET Annex |
| Carbon Compensation | UIOLI | NGET and SPT | ET Annex |
| Property Costs | Re-opener | SHET only | This document |
| Subsea Cable | Re-opener | SHET only | This document |

Table 4: Proposed BPI outcome

| BPI Stage | SHET outcome (Bps RoRE) | Further detail |
|-----------|-------------------------|---|
| Stage A | 0 | Overview Document and this document |
| Stage B | -2.64 | Overview Document, ET Annex and this document |
| Stage C | 1.40 | Overview Document and this document |

Table 5: Proposed financing parameters

| Area | SHET outcome | Further detail |
|---|---------------|----------------|
| Notional gearing | 55% | Finance Annex |
| Cost of equity | 5.64% | Finance Annex |
| Cost of debt (semi-nominal) | 5.80% | Finance Annex |
| Weighted average cost of capital (semi-nominal) | 5.73% | Finance Annex |
| Expected RoRE ranges | 3.11% – 7.91% | Finance Annex |

2. Outputs and incentives

- 2.1 This chapter sets out our views on outputs and incentives that are specific to SHET, including for bespoke proposals submitted through its business plan.

Outputs we propose to accept

Network Asset Risk Metric (NARM)

- 2.2 Table 6 summarises the results of our assessment and the proposed Baseline Network Risk Outputs (BNRO) per NARM asset category. Further detail about the NARM methodology can be found in the Overview Document.

Table 6: Proposed BNRO per NARM asset category

| Asset Category | BNRO (R£m) |
|-------------------------|-------------------|
| 132kV Circuit Breaker | 321.95 |
| 132kV Transformer | 78.51 |
| 132kV Reactor | 0 |
| 132kV Underground Cable | 153.79 |
| 132kV OHL Conductor | 253.81 |
| 132kV OHL Fittings | 199.44 |
| 132kV OHL Tower | 384.32 |
| 275kV Circuit Breaker | 45.14 |
| 275kV Transformer | 0 |
| 275kV Reactor | 0 |
| 275kV Underground Cable | 0 |
| 275kV OHL Conductor | 0 |
| 275kV OHL Fittings | 0 |
| 275kV OHL Tower | 0 |
| 400kV Circuit Breaker | 0 |
| 400kV Transformer | 0 |
| 400kV Reactor | 0 |
| 400kV Underground Cable | 0 |
| 400kV OHL Conductor | 0 |
| 400kV OHL Fittings | 0 |

| Asset Category | BNRO (R£m) |
|-----------------------|-------------------|
| 400kV OHL Tower | 0 |
| Total | 1,436.96 |

- 2.3 Generally, we were able to align the BNRO and volumes submitted in SHET's NARM Business Plan Data Template (BPDT) with the volume data submitted in its Business Plans and Engineering Justification Papers (EJPs), and our allowed volume data from our cost assessment well. We will work with companies to develop ongoing reporting.
- 2.4 As the projects SHET put forward in its NARM BPDT submission have been assessed as justified without adjustments through our engineering and cost assessments, the BNRO has not been adjusted.
- 2.5 We propose to continue to use the NARM funding categories outlined in the NARM Handbook,⁴ indicates the scope of NARM Funding Adjustment and Penalty Mechanism and its interaction with other mechanisms.
- 2.6 We propose that all non-load related schemes delivering lead asset replacement or refurbishment be assigned to Category A1 (NARM Funding Adjustment and Penalty Mechanism) and therefore be covered by the NARM Funding Adjustment and Penalty Mechanism.
- 2.7 The proposed exceptions are the following schemes which have been identified as potentially being more appropriately covered under a bespoke UM, therefore we propose that its associated expected outputs are included within Category A3 (Ring-fenced Project/Activity) and not funded under NARM. Please refer to the 'PCDs that we propose to introduce' section of this document.
- SHNLT204
 - SHNLT2169
 - SHNLT207
 - SHNLT2129
 - SHNLT2017
 - SHNLT2157
 - SHNLT2158
 - SHNLT2166B
 - SHNLT2017B

⁴ https://www.ofgem.gov.uk/sites/default/files/2024-07/NARM_Handbook_v3.1_draft.pdf

- 2.8 One scheme SHET put forward in its NARM submission, which has not been identified as potentially being more appropriately covered under a bespoke UM, has an overall negative LTRB. As pointed out by SHET in its NARM commentary, this could lead to an adverse outcome, and we agree that it should sit within in the A3 NARM funding category.
- 2.9 We propose that all replacement and refurbishment work to be delivered through load-related schemes fall within Category A2 (Funding Under a Separate Mechanism). Any funding associated with these schemes would be covered by the relevant load-related mechanism. Should the anticipated load-related driver for these schemes not materialise then the existing assets planned for replacement or refurbishment may be considered for risk trading as part of the NARM Funding Adjustment and Penalty Mechanism. Should these assets be replaced or refurbished in the absence of the load-related driver, then suitable justification for doing so would need to be provided.

PCDs that we propose to introduce

Purpose: To hold SHET to account for delivering specific outputs during RIIO-ET3.

Benefits: To protect consumers if any discrete capital investment is not delivered.

Background

- 2.5 In its business plan, SHET proposed various cost and output areas which contained some degree of uncertainty regarding the volumes that it would ultimately deliver. In some cases this uncertainty was acknowledged by SHET, and in others it has been identified by us during our Business Plan assessment.

Consultation position and rationale

Summary of consultation position

PCD type: Various, shown in Table 7 as PCDE for Evaluative PCDs and PCDM for Mechanistic PCDs

Output to be delivered: See Table 7

Baseline cost allowance: See Table 7

Reporting to stakeholders: Annual reporting through the Regulatory Reporting Packs (RRPs)

Delivery date: 31 March 2031

Applied to: SHET

Proposed PCDs

2.10 To manage the uncertainty relating delivery of some areas of SHET's Business Plan we propose to include the PCDs shown in Table 7.

Table 7: Proposed SHET RIIO-ET3 PCDs

| PCD name | DD modelled cost (£m) | Output(s) to be delivered | Delivery date |
|---------------|-----------------------|--|---------------|
| Atypical PCDE | 50.42 | <p>Protection Refurbishment/Replacement and Modernisation</p> <p>Replace:</p> <ul style="list-style-type: none"> • 32 protection assets • 50 tele-protection assets • 5 feeder protection schemes • 15 transformer protection schemes • 1 busbar protection scheme <p>Delivery period: 2026–2031</p> <p>Transmission Substation SCADA Replacement</p> <p>Replace:</p> <ul style="list-style-type: none"> • 69 C10e RTUs • 14 legacy RTUs (1980s) • 9 obsolete HMIs • C10e RTUs to be retained as spares. <p>System Monitoring Replacement and Modernisation</p> <p>Replacement:</p> <p>TWS Fault Locators Replace with 13 FL-8</p> <p>Upgrade:</p> <p>IDM Fault Recorders Upgrade 19 to IDM+ 19 BVM</p> <p>Power Quality Sensors Upgrade 10 signal conditioning electronics</p> <p>License Upgrades:</p> <p>IDM+/IDME Multifunction Recorders Apply license upgrades of 35 units to existing fleet of multifunction recorders to include Power Quality and Phasor Measurement capability</p> <p>New install:</p> | 31 March 2031 |

| PCD name | DD modelled cost (£m) | Output(s) to be delivered | Delivery date |
|-----------------------------------|-----------------------|---|---------------|
| | | Waveform Measurement Units Install a small subset of Waveform Measurement Units, at five locations to be agreed with the NESO. | |
| Circuit Breaker PCDM | 50.01 | OX36 Circuit Breaker Replacement Replace 5 x 33kV OX36 SF6 circuit breakers [REDACTED] 132kV Circuit Breaker Replacement Replace 2 x 132kV Alstom DT1 SF6 circuit breakers Circuit Breaker Portfolio Projects Replace 1 x 132kV Brush DB145 live tank circuit breaker (CB 705). Only one of its type at the substation; others are Alstom DT1/145. | 31 March 2031 |
| Existing Power Station Works PCDM | 319.70 | [REDACTED] | 31 March 2031 |
| Substation PCDM | 285.94 | [REDACTED] | 31 March 2031 |

PCD types

- 2.11 Mechanistic PCDs are proposed in cases where work is repeatable with a defined volume of work and we can set work by reference to the unit costs. In such cases, the recovery of any non-delivery of work is automatic.
- 2.12 Evaluative PCDs are proposed in cases where the exact work delivered has potential to vary in part from the company Business Plan submission, either in cost or output. For evaluative PCDs, our approach allows for an in-depth assessment of the output delivered and whether an adjustment to allowances is necessary to protect consumers.
- 2.13 Both PCD types allow us to return money to consumers in the event that the output isn't delivered.

Output to be delivered and baseline cost allowance

- 2.14 The outputs proposed in Table 7 have been defined using information from SHET's Business Plan, without any material alterations.

- 2.15 The costs proposed in Table 7 have been set using information from SHET's Business Plan. These have been amended to reflect unit cost modelling through the Project Assessment Model (PAM) and the application of ongoing efficiency.

Reporting to stakeholders

- 2.16 We propose to require annual reporting on PCDs in the RRP, which will enable us to monitor status of these PCDs, including timelines and costs.

Questions

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|---|
| SHETQ1. Do you agree with our proposal to introduce these four PCDs for SHET? |
|---|

Outputs we propose to reject

Marine Biodiversity

Consultation position and rationale

- 2.17 In its Environmental Action Plan (EAP), SHET identified that there is currently no equivalent Biodiversity Net Gain (BNG) legislative requirement for marine biodiversity compensation in Scotland. However, it expects BNG planning requirements in relation to the marine environment to come into effect during RIIO-ET3 and noted some Local Planning Authorities (LPAs) are already making specific requirements. As such, SHET highlighted a current capability gap to deliver on any requirements at scale (ie no marine biodiversity metric in Scotland and workforce limitations).
- 2.18 SHET proposed five EAP commitments totalling £44.5m, with the purpose of funding research and skill development in this area and in turn delivering marine biodiversity habitat restoration. Specific outputs of note include the funding to develop and run a Marine Habitat Restoration Academy (£6.2m), a Distributed Acoustic Sensing habitat monitoring development (£2.3m), and to sow 250 million seagrass seeds (£18m) and release 20 million oysters (£18m). The commitments form a portfolio of work tied to RIIO-ET3 and major projects.
- 2.19 SHET's proposal builds on stakeholder demand to limit network impact on the environment and shows ambition to get ahead of a potential future legislative requirement.
- 2.20 We have concerns with the proposal in its current form:
- The appropriateness and associated consumer value of the BNG proxy metrics (ie native oysters released and seagrass seeds sown) is unclear,

with limited supporting evidence to justify the specific targets and associated materiality.

- The consumer value and output of the £6.2m funding requested to deliver 12 skills and workforce development courses through the Marine Habitat Restoration Academy is unclear. We are not convinced that knowledge and skill sharing requires such investment, or what 12 courses means in practice.
- The need for initial research and capability development to deliver some outputs subsequently in the price control suggests there may be a deliverability risk for the overall output.
- We are not convinced that energy consumers should be responsible for funding the initiation of research and development in this area, considering it's not a core network activity and we are unclear on the value of developing internal resource in this area versus using external suppliers.

2.21 At this time, we propose to reject the SHET proposal. If SHET maintains that the proposal is in the interest of energy consumers following our consultation position, further evidence is required to justify the cost and volumes associated with the proposal (ie funding is proportionate to its environmental impact, other BNG commitments, and in the interest of energy consumers).

SHETQ2. Do you agree with our proposal to reject SHET's marine biodiversity EAP commitments?

Species and Habitat UIOLI

Consultation position and rationale

2.22 In its EAP, SHET proposed a new Species and Habitat UIOLI of £26.7m to deliver location-specific Additional Conservation Actions⁵ for key species and habitats based on Environmental Impact Assessment (EIA) findings from RIIO-ET3 construction work. Outputs would include research, monitoring programmes, interventions for specific species or habitats, capacity building, engagement, or removal of invasive species, with a governance board to assess each project.

⁵ ie "measures taken that have positive – but difficult to quantify – effects on biodiversity." For more information see: [Mitigation Hierarchy - The Biodiversity Consultancy](#)

- 2.23 The Species and Habitat UIOLI would be in addition to other EAP commitments related to environmental legislative and planning consent requirements, such as delivering 10% BNG on all projects requiring planning consent, irreplaceable habitat compensation, and compensatory planting for woodland loss. Some overlap with the Landscape Enhancement Initiative (LEI) UIOLI was also identified. SHET suggests the activities as part of this UIOLI will deliver more short-term environmental benefit compared to other BNG requirements.
- 2.24 We have concerns regarding the consumer value of this specific proposal:
- Significant parallel funding which will be required to deliver 10% BNG and other environmental compensation requirements, with costs identified in the EAP totalling £301.5m for these areas over RIIO-ET3.
 - Increased consumer cost burden of wider business plan activities.
 - Our consultation position to accept the EAP commitment to deliver 10% BNG on all projects requiring planning consent, which sets SHET's BNG ambition beyond current legislative requirements in Scotland and means we do not consider it necessary to fund this additional commitment.
- 2.25 SHET also referenced the SPT RIIO-ET2 Biodiversity UIOLI allowance in determining the materiality of its proposal. Although linked, we do not consider the proposals directly comparable. The SPT fund aims to deliver "no net loss" biodiversity, which was respective of uncertainty in environmental legislation at the start of RIIO-ET2 and is superseded in RIIO-ET3 by the common TO commitment to deliver 10% BNG for projects requiring planning consent.
- 2.26 Our consultation position is therefore to reject the Species and Habitat UIOLI funding proposal.

Questions

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| SHETQ3. Do you agree with our proposal to reject SHET's Species and Habitat UIOLI? |
|--|

3. Business Plan Incentive (BPI)

- 3.1 This chapter sets out SHET's results for each stage of the BPI, along with the rationale for the result given. For information on what the BPI is and how it is assessed, see the Overview Document.
- 3.2 In assessing business plans against the BPI Stages A and C, we assessed each plan on its own merit based on criteria set out in the Sector Specific Methodology Decision (SSMD) and Business Plan Guidance. A consistency check was undertaken across companies and sectors to ensure we were being consistent in our assessment; but the business plans were not assessed against one another. For Stage B, depending on the nature of the assessment methodology the companies could be compared against one another within each sector. For further information on Stage B, see Chapter 6 of the ET Annex.
- 3.3 Table 8 sets out our proposed BPI results for SHET and where further information on each stage and the result and rationale can be found.

Table 8: Proposed BPI results for SHET

| BPI Stage | Assessment result | Further detail |
|-------------------------------------|--------------------------|---|
| A | Pass | Overview document for approach to assessment. This chapter for specific views on the assessment result. |
| B | -2.64 bps | Overview Document for approach to assessment. The ET Annex for the network results compared within the sector and an explanation of the assessment methodology. This chapter for specific views on the assessment result. |
| C | 1.4 bps | Overview Document for approach to assessment. This chapter for specific views on the assessment result. |
| Total bps | -1.24 bps | |
| Total 5-year monetary equivalent £m | -2 | |

Stage A

- 3.4 Of the 11 minimum requirements, there were two where we had concerns that SHET may have, in discrete areas, technically failed the minimum requirements. These were:

- Minimum requirement 9: 'The network company must provide information in their business plans on cost drivers; consideration of options; justification of costs; and how efficiency improvements and innovation will be delivered to reduce costs and/or add value for money for consumers.' There were several reports which were not provided in the original submission but were listed as additional documents available upon request, and were promptly provided. These reports for Real Price Effects (RPEs), ongoing efficiency and indirects benchmarking were necessary to justify SHET's proposals. Without these reports SHET's submissions on these areas would have lacked the information required to undertake a robust assessment.
 - Minimum requirement 10: 'The network company must complete the Business Plan Data Templates (BPDT) and tab-by-tab commentary in accordance with the Ofgem BPDT guidance'. The omission was the volumes for Network Operating Costs (NOCs) categories including 'vegetation management, NOCs other, flood mitigation, and operational technology by scheme' in the original submission. Subsequent changes were also made via supplementary question to 'faults costs and volumes, inspections volumes, maintenance costs and volumes, repairs costs, and vegetation management costs'. The costs associated with these missing volumes amount to 2% of totex which meant we were unable to begin cost assessment before receiving the data at a later date.
- 3.5 Both of these areas, viewed in isolation, could amount to technical minimum requirement fails because information required by our Business Plan Guidance which was required for us to undertake our assessment was not provided at the time of business plan submission.
- 3.6 However, both of these areas were easily resolved in a relatively short amount of time, and as such we do not consider that it would be proportionate to fail SHET against these minimum requirements. In reaching this decision, we have also considered SHET's performance against the other minimum requirements which we considered to be of a high standard. Therefore, following our assessment, we consider that SHET has passed Stage A of the BPI.

Stage B

- 3.7 The overall assessment result for SHET is -2.64 bps, which corresponds to the weighted average of the outcomes from comparative (-1.71 bps, 21%) and bespoke (-0.93 bps, 79%) assessment. The following sections provide detail on the assessment of each cost category.

Comparatively assessed costs

3.8 The table below sets out the comparatively assessed costs and their weightings within the overall Stage B assessment score.

| Comparatively assessed cost category | Weighting | Efficiency benchmark | Efficiency score | BPI reward/penalty (bps) |
|---|------------------|-----------------------------|-------------------------|---------------------------------|
| Closely Associated Indirects | 14% | 1.16 | 1.37 | -0.99 |
| Business Support Costs | 5% | 1.08 | 1.22 | -0.49 |
| Insurance | 2% | 1.37 | 1.99 | -0.23 |
| Total | 21% | | | -1.71 |

Bespoke costs

3.9 The table below sets out bespoke costs assessed and the result and rationale for each one assessed.

| Bespoke Cost | Weighting | BPI reward/penalty (bps) | Rationale |
|--|------------------|---------------------------------|--|
| Closely Associated Indirects: Operational Training | 1% | 0.10 | Quality of cost evidence, unit cost and volumes justifications could be improved, but costs in line with drivers of growth such as employees and network scale and thus allowed in full. |
| Network Operating Costs | 6% | 0.00 | Fair quality of cost evidence and adequate justification of efficient unit costs and volumes, although some costs disallowed following qualitative review. Despite evidence of benchmarking using international studies, quantitative analysis shows costs could be more efficient. Also, a material amount of volumes data was missing from initial submission. |
| Non-operational Capex | 7% | 0.00 | Fair cost evidence and no adjustments, details provided around cost drivers however no evidence on how it is driving efficiencies. Unit cost and volumes criterion not applicable. |

Consultation - RIIO-3 Draft Determinations – Scottish Hydro Electric Transmission (SHET)

| Bespoke Cost | Weighting | BPI reward/penalty (bps) | Rationale |
|---|------------------|---------------------------------|--|
| Business Support Costs: IT & Telecoms | 9% | -1.83 | Poor cost evidence and a third of costs disallowed in qualitative review. Some information provided on increasing costs for RIIO-ET3 however little detail on efficiencies and Supplementary Questions (SQs) required. Unit cost and volumes criterion not applicable. |
| Non-operational Capex: IT & Telecoms | 3% | -0.60 | Poor cost evidence and a third of costs disallowed in qualitative review. Some information provided on increasing costs for RIIO-ET3 however little detail on efficiencies and SQs required. Unit cost and volumes criterion not applicable. |
| Network Operating Costs: Operational Technology | 3% | 0.00 | Fair cost evidence and adequate justification of unit costs and volumes. However, no specific mention of unit costs and SQs required to gain further detail. |
| Non-Load Related Capex: Replacement | 34% | 0.00 | Comprehensive cost evidence as seen by high confidence engineering review. However, poor justification of unit costs as concerns on high unit costs and risk submissions compared to industry standards and benchmarking assessment. |
| Non-Load Related Capex: Refurb Major | 0.1% | 0.01 | Comprehensive cost evidence and robust unit cost and volume justification. |
| Non-Load Related Capex: Refurb Minor | 2% | -0.12 | Fair cost evidence and volume justification however poor justification of unit costs when compared to industry benchmarks. |
| Non-Load Related Capex: Spares | 1% | 0.11 | Comprehensive cost evidence and optioneering and volumes justified. Unit cost criterion not applicable. |
| Other Costs: Cyber Security | 4% | 0.00 | Fair quality of cost evidence. Unit cost and volumes criterion not applicable. |

| Bespoke Cost | Weighting | BPI reward/penalty (bps) | Rationale |
|--|------------------|---------------------------------|--|
| Non-operational Capex: Data & Digitalisation | 5% | 1.05 | Comprehensive cost evidence and all projects approved. Unit cost and volumes criterion not applicable. |
| Business Support: Data & Digitalisation | 2% | 0.35 | Comprehensive cost evidence and all projects approved. Unit cost and volumes criterion not applicable. |
| Total | 79% | -0.93 | |

Stage C

3.10 The below sections set out the assessment results and rationale for the Clarity and Business Plan Commitments assessments for Stage C of the BPI.

Clarity

Assessment result: 1.40 bps.

3.11 SHET's plan was 'acceptable' in relation to its clarity in four out of five assessment areas, with an 'outstanding' rating assigned to its 'layout and structure'. On the latter it was rated as such due to the very clear signposting and coherent flow that is a feature throughout the documents. Its regulatory chapter provides a useful overview of SHET's view of what the RIIO package should look like. Overall, the tone and layout of the business plan is a helpful balance between an externally specific and regulatory specific document. Additionally, it makes good use of tables to present and summarise information in the NARM commentary. Other areas of assessment were 'acceptable' due to their broad compliance with the criteria. Most language was accessible and able to be understood by stakeholders. We deemed the business plan to be coherent overall, but some parts (including sign-posting in the Load Strategy, the Community Benefits Funding ask and EAP justifications) were more difficult to navigate or identify where the important information was located.

Business Plan Commitments

Overall assessment result: 0 bps

Outcome: Infrastructure fit for a low-cost transition to net zero

Assessment result: -1.30 bps

3.12 SHET's commitments toward infrastructure fit for a low-cost transition to net zero were rated poorly for its focus on consumer value and additionality. It often

did a poor job of justifying value for consumers in relation to high-cost proposals, such as a £30m species and habitat fund and a potential £100m Carbon Border Adjustment Mechanism. Generally SHET's Environmental proposals lacked quantified benefits, stakeholder input and clarity on losses, undermining long-term consumer value and strategic credibility. Furthermore we consider that SHET's 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. We acknowledge that there are a range of uncertainties, including connections reform, which made it challenging for all TOs to have all RIIO-ET3 load investments ready to request baseline funding in December 2024. However, we expect that all TOs should have done more to identify low/no-regret load investments to include in their load baselines, leaving fewer projects that require in-period assessment and providing greater certainty regarding network design. SHET's losses strategy plan for RIIO-ET3 contained a concerning and disappointing lack of detail.

- 3.13 Across the other three criteria, SHET's commitments were rated as 'acceptable'. SHET's 26GW clean generation ambition and 2.2GW of connections show strong intent, but deliverability is uncertain due to reliance on UMs referenced above. While forward-looking planning tools and Area System Planning (ASP) methodology are commendable, we consider that these should largely be business-as-usual and do not warrant reward.

Outcome: Secure and resilient supplies

Assessment result: 1.30 bps

- 3.14 SHET displayed an 'outstanding' commitment in the drive to stretch its performance from RIIO-ET2 in its pursuit of safe and resilient supplies. This came through a commitment to implement new 'Signature Strategies' to secure long-term access to supply chain capacity and optimize cost efficiency, which are a marked improvement from the strategies in place RIIO-ET2. We consider that SHET's digital commitments were strong too, displaying clear advancements. Additionally, it expressed its desire to be in the upper quartile in a number of different asset management benchmarking areas, including bi-annual IT Operations Management (ITOM) and IT Asset Management (ITAM) benchmarking (or equivalent).
- 3.15 Across the other three criteria, we rated SHET's commitments as 'acceptable'. This is justified by several balanced factors. Its digital commitments under "operations for the future" are financially well-supported. SHET's ambition to

lead in digital innovation is evident, as discussed in the paragraph above. However, persistent challenges in securing outage slots and the high cost of delivery, particularly for projects like the operational campus, raise concerns. Additionally, 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).

Outcome: High quality of service from regulated firms

Assessment result: 0 bps

- 3.16 SHET has been rated as 'acceptable' across all four criteria for its commitments to high quality of service. SHET's commitment to maintaining high quality connections and customer service reflects a stable foundation and adds to their perceived deliverability. Its commitment to ensuring consumer value is modest, with the new infrastructure stakeholder engagement survey only briefly mentioned, with no clear guidance or detail on how it would enhance consumer outcomes. It was limited in its pursuit of stretching its performance, such as its drive to maintain already high customer survey scores which is positive but not ambitious. Additionally, the AA1000 certification is commendable, but already achieved. There are minimal new proposals, but the housing strategy shows some innovation in addressing workforce and community needs. Overall, SHET's commitments reflect a steady approach with some positive elements, but lack the ambition or innovation needed for a higher rating.

Questions

- SHETQ4. Do you agree with our view that SHET passed all of the minimum requirements and as such are considered to have passed Stage A of the BPI?
- SHETQ5. Do you agree with our assessment results for SHET against Stage B of the BPI?
- SHETQ6. Do you agree with our assessment results for SHET against Stage C of the BPI?

4. Managing uncertainty

- 4.1 This chapter sets out our views on UMs that are specific to SHET, including bespoke UM proposals submitted through its business plan.

UMs we propose to accept

Property Costs Re-opener

Purpose: To enable SHET to seek funding for efficient costs associated with its property investment portfolio.

Benefits: A range of new properties which will enhance SHET operating efficiencies.

Background

- 4.2 SHET's network is undergoing, and will continue to undergo a significant increase in the volume and sparsity of its asset base. Existing property facilities are reaching saturation and therefore new facilities are needed to allow for the continued efficient operation of the network.
- 4.3 Given the scale and diverse nature of the works proposed by SHET, the underlying cost uncertainty, as well as the need to clarify optioneering, we propose to introduce a combined re-opener to streamline our review process of optioneering and cost.

Consultation position and rationale

Summary of consultation position

UM type: Re-opener, Optioneering and Cost only.

Re-opener window: April 2028 to March 2029

Materiality Threshold: 0.5% of annual ex-ante base revenue

Trigger: TO trigger

Applicable Projects:

New Control Room

New Training Centre

Six additional depots in a range of different geographic areas.

Additional requirements: We expect SHET to provide clear optioneering and scoping information in its consultation response. This will be used to evaluate any changes to our proposal ahead of Final Determinations and into re-opener submission from SHET.

- 4.4 We agree that these projects are required and therefore the re-opener is designed to be Optioneering and Cost only.
- 4.5 With regards to the New Control Room, in RIIO-ET2 we provided funding for a new Control Room for SHET, which after the proposed ASTI and CP2030 works was deemed by SHET to be insufficiently sized for the number of new circuits which it will control. SHET has shared its intention to return the RIIO-ET2 PCD funding, and it is on this basis we have included this project within the scope of the re-opener.
- 4.6 We recognise the remaining uncertainty given the changes through NESO strategic plans, but our view is that this uncertainty is on scope as opposed to need.

Questions

| |
|--|
| SHETQ7. Do you agree with our proposal to introduce, and our proposed parameters for, a Property Costs Re-opener for SHET? |
|--|

Subsea Cable Repairs Re-opener

Purpose: To enable SHET to seek funding for efficient costs associated with resolving unexpected subsea cable faults, or for mitigating the risk of these faults occurring.

Benefits: Improves security of supply in areas of SHET's network that are reliant on subsea cables and ensures that the consumer is only paying SHET to manage necessary risks.

Background

- 4.7 In our RIIO-ET3 SSMD we decided to retain the RIIO-ET2 Subsea Cable Re-opener for SHET. We set out that this re-opener will still be needed for high-cost, low probability subsea cable events in RIIO-ET3.

Consultation position and rationale

Summary of consultation position

UM type: Re-opener

Re-opener window: April 2028 and RIIO-ET3 close out.

Materiality Threshold: 0.5% of annual ex ante base revenue

Trigger: TO trigger

Additional requirements: N/A

- 4.8 The design features summarised above are consistent with RIIO-ET2 and with our SSMD in which we set out that we would roll this re-opener forward unchanged from RIIO-ET2.

Questions

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|--|
| SHETQ8. Do you agree with our proposed parameters for the Subsea Cable Repairs Re-opener for SHET? |
|--|

Generation and Demand connections Volume Driver

- 4.9 TOs are required to provide connection offers within specific timeframes and ensuring the transmission network meets technical standards. Customers connecting to the network are either generators or demand users. Generation connections often necessitate substation upgrades and network reinforcements, while demand connections may involve new infrastructure at Grid Supply Points (GSPs). Given the customer-driven nature of these projects, future investment needs are uncertain.
- 4.10 To manage this, we propose to retain and update the volume driver mechanism used in previous price controls for projects with uncertain needs but predictable, repeatable, and measurable work, allowing revenue adjustments based on actual connection volumes. Table 9 sets out our proposed unit rates for SHET.

Table 9: Generation and Demand Connections Volume Driver modelled unit costs (£k/#, 2023/24 prices)

| Volume driver component | DD unit cost |
|-------------------------|--------------|
| Substation - generation | [REDACTED] |
| Substation - demand | [REDACTED] |
| OHL - new | [REDACTED] |
| OHL reconductor | [REDACTED] |
| Cable <1km | [REDACTED] |
| Cable >=1km | [REDACTED] |

| |
|--|
| SHETQ9. Do you agree with our proposed unit rates? |
|--|

UMs we propose to reject

Biodiversity Net Gain (BNG) Re-opener

Consultation position and rationale

- 4.11 SHET proposed a BNG Re-opener to address uncertainty associated with non-load and resilience BNG costs that cannot be forecast and have no clear alternative UM.
- 4.12 We agree there is some uncertainty in biodiversity delivery and cost. However, we do not consider there is a significant enough needs case to warrant this re-opener. This is because BNG costs associated with non-load and resilience activities are expected to be of low materiality compared to load-related BNG costs, with relatively low TO allowance requests in baseline and limited expected use of non-load UMs in RIIO-ET3. This meets our expectation given how biodiversity legislation relates to typical non-load construction activities compared to load (ie projects that require planning consent are those required to have 10% BNG).
- 4.13 In the case of BNG costs aside from non-load and resilience, we consider that the UM framework for load costs allows for BNG inclusion in project costs, replicating the baseline approach.

Questions

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|---|
| SHETQ10. Do you agree with our proposal to reject SHET's Biodiversity Net Gain (BNG) Re-opener? |
|---|

5. Cost of service

5.1 This chapter sets out our Draft Determinations on baseline allowances for the different cost areas within SHET's Business Plan submission and summarises our review of the Engineering Justification Papers (EJPs).

Baseline allowances

5.2 Baseline totex referenced in this chapter comprises forecast controllable costs and is inclusive of our proposed ongoing efficiency challenge. The figures presented in this chapter do not include Real Price Effects (RPEs) to allow comparisons with TOs' submissions which were exclusive of RPEs. They also do not include additional ex ante funding such as UIOLI allowances, pass-throughs or NIA (for SHET's overall ex ante funding, see Table 1). Submitted totex are after exclusions.

5.3 Table 10 compares SHET's submitted baseline totex with our Draft Determinations position at a disaggregated cost activity level.

Table 10: Submitted versus proposed allowed baseline totex (£m, 2023/24 prices)

| Cost area | SHET submitted totex | Ofgem proposed totex | Difference (£m) | Difference (%) |
|------------------------------|----------------------|----------------------|-----------------|----------------|
| Load related capex | - | - | - | - |
| Non-load related capex | 1,394 | 1,185 | -209 | -15% |
| Non-operational capex | 580 | 479 | -101 | -17% |
| Network operating costs | 361 | 279 | -82 | -23% |
| Business support costs | 810 | 490 | -321 | -40% |
| Closely associated indirects | 654 | 484 | -170 | -26% |
| Other costs | 342 | 157 | -185 | -54% |
| Baseline totex | 4,141 | 3,074 | -1,067 | -26% |

Engineering assessment of SHET's business plan

Plan Quality

- 5.4 SHET's EJP submissions are generally of an acceptable quality. Often, we find we agree with the broad investment proposal, however often this is evidenced by minimal levels of supporting data and information.

Thematic Issues:

Overview

- 5.5 In this section we have provided three thematic issues we've identified with SHETs EJP submissions.
- 5.6 For a more detailed review of SHETs EJPs please see Appendix 1.

Atypical information provision

- 5.7 We broadly conclude that the need cases of SHET's atypical EJP submissions are justified. The strategic approach is well documented and the optioneering, while of limited depth, generally contains an outcome which provides consumer value. As a result the majority of Atypical Optioneering assessment are 'justified'.
- 5.8 The limited information provision, particularly on high value investments which are subject to re-openers, is a concern identified in our review. This is because, given the limited information and in particular costed optioneering, we are concerned SHET may be selecting overly expensive options without sufficient justification.

CP2030 Re-openers

- 5.9 The majority of SHETs proposed CP2030 investments are in line with our expectations and would deliver the NESOs proposed network outputs. We note that the original business plan gave a range of phased approaches which integrated with the CP2030 to the extent that SHET's CP2030 submission was largely included in its original EJP submissions. This consistent strategic approach provides confidence to us regarding the thoroughness of SHETs system planning.
- 5.10 We are however concerned at some of the more detailed optioneering presented in the additional CP2030 EJPs submitted, noting that these EJPs are identified for the Load Re-opener. We encourage SHET to engage with SHEPD on a whole systems basis and to consider future network requirements.

Non-Lead Asset Data

- 5.11 SHETs non-lead asset data submission was sub-optimal. While the non-lead data provided enough information to support our review and the review of the

funding requests it was not in line with our expectations. This is because we expected to see asset data on the entire SHET fleet of assets, and not only those which were proposed for investment.

Assessment

- 5.12 In the ET sector, due to the different types of EJP used we do not refer to EJPs as our standard terminology, instead we refer to Ofgem Scheme References (OSRs) which makes the integration of our engineering assessment into the cost assessment process more transparent. This means that our assessment is on a per OSR basis as opposed to per EJP⁶ basis.
- 5.13 We reviewed 172 OSRs from SHET, this equates to roughly £7.3bn of planned RIIO-ET3 expenditure. These reviews covered both the baseline and re-opener requests. The majority of the OSRs are contained within Portfolios and Major Projects EJPs.
- 5.14 Following our technical review and analysis, we found that the Needs Case, Optioneering and Scope Confidence for 69 of the OSRs were fully justified. This represents 40% of all OSRs. We have not commented further on these OSRs, which are recommended for approval in our draft determinations.
- 5.15 We found that the Needs Case of 168 OSRs were fully justified, none were partially justified, and four were unjustified. Narrative papers have been clearly laid out and, in most cases, the provision of supplementary information has been forthcoming from SHET. The non-lead asset data for the full network area was not provided and this has reduced our ability to evaluate some of the submissions. We would welcome a full submission of this data.
- 5.16 We found that the Optioneering of 160 OSRs were fully justified, two were partially justified, and 10 were unjustified. The Scope Confidence of 71 OSRs were high, 61 OSRs were medium, and 40 OSRs was low.
- 5.17 We note that more than half of the load related submissions from SHET have not requested baseline funding, many of which were submitted to us in February 2025 under CP2030 investment drivers. In our view it would have been beneficial if more detailed optioneering had been presented to us at this stage to aid our review in future re-openers.

⁶ Individual EJPs may have multiple OSRs and so where we do reference an EJP it is to minimise the administration on listing all applicable OSRs.

- 5.18 Appendix 1 provides details on our recommendations in relation to SHET's partially justified EJPs/OSRs. As outlined above, these recommendations have not impacted SHETT's funding requests.
- 5.19 The funding outcomes of our engineering assessments can be found in the PAM models issued to TOs.

Consultation Response

- 5.20 To ensure that we are clear on the benefits of SHET's existing plan we have detailed our expectations for SHET's consultation response.
- 5.21 For Atypical investments:
- We consider it would be beneficial for SHET to provide more design information with regards to its new Control Room, Depots and Training Centre. This will aid our future re-opener reviews.
- 5.22 For CP2030 works:
- If SHET could provide additional justification for the optioneering in a range of projects.
 - We expect 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.

Questions

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|---|
| SHETQ11. What are your views on our engineering assessment of SPT's RIIO-ET3 Business Plan? |
|---|

6. Innovation

Background

- 6.1 The SSMD, Business Plan Guidance and Overview Document identify the criteria and process that we have used to assess NIA funding requests. The Overview Document also details our proposals for NIA oversight, the SIF, increasing third party involvement and innovation deployment.
- 6.2 We set out below our Draft Determinations on SHET's RIIO-ET3 NIA funding.

Consultation position and rationale

Level of Network Innovation Allowance (NIA) funding: In its Business Plan, SHET requested £25.5m in NIA funding. Following our assessment, we are minded to award £20m.

- 6.3 Innovation Strategy: While SHET's Innovation Strategy laid out how its work will support the transition to net zero, there were areas where we would have expected further detail and evidence to be provided. Its strategy was focused on how it will make its network faster, greener, smarter and safer, and it provided evidence of how it was rolling out previous innovation and incorporating it into its BAU activities.
- 6.4 NIA Workstreams: We deducted £0.5m from SHET's request in relation to its workstream "SF6 Condition Monitoring". Based on the evidence provided, we were not convinced that this area required further innovation stimulus funding, due to other incentives within the RIIO-ET3 framework to reduce SF6 emissions and previous funding that has been given in this area.
- 6.5 Business Plan Assessment: After assessing SHET's Business Plan against the criteria set out in the Business Plan Guidance (paragraph 3.13), it was scored against each of these based on whether it provided sufficient evidence to justify the amount of NIA it was requesting. Based on SHET's score, we propose to further reduce its NIA award by 20%. From the criteria, we would have expected additional detail to be given in the following areas:
- Key areas of focus for NIA spending: SHET gives a very high-level overview of its NIA planned areas of focus. We would expect more detail to be given regarding the problems it is trying to solve, and why the specific solutions were chosen.
 - Meeting eligibility criteria and scoping guidance: We expected further detail to be provided on how its portfolio and workstreams meet the eligibility

criteria of facilitating the energy system transition and/or benefiting consumers in vulnerable situations.

- Ensuring no duplication: SHET explains at a high level how it will work to avoid duplication, but we would have expected more detail to be given here on the processes it has in place to do this and how they work in practice.
- Proposals to disseminate: The evidence of current dissemination SHET has provided is quite limited and we would expect more dissemination to be detailed as well as plans for further dissemination in the future.
- An explanation of why the innovation in question cannot be funded from the Totex allowance: SHET simply states that its chosen areas "aim to deliver high-risk, high-reward innovations that go beyond BAU", whereas we would expect substantively more information to be provided on why stimulus funding is needed for its activities.

Questions

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|--|
| SHETQ12. Do you agree with the level of proposed NIA funding for SHET? |
|--|

7. Data and Digitalisation

Introduction

- 7.1 The SSMD, Business Plan Guidance and Overview Document identify the criteria and process that we have used to assess the funding of proposed data and digitalisation investments. The Overview Document also details our proposals for further digitalisation of the sector through the existing Digitalisation licence condition, a proposed Data Sharing Infrastructure (DSI) licence condition, and a Digitalisation Re-opener.
- 7.2 We have set out below our Draft Determinations on SHET's RIIO-ET3 data and digitalisation funding.

Consultation position and rationale

Summary of consultation position

Level of data and digitalisation funding: In its Business Plan, SHET requested £222m in funding. We identified £47m of investments as miscategorised, which should have been categorised as IT and Telecoms. This left £175m in data and digitalisation funding requested. Following our assessment, we propose to award £175m, or 100% of the total data and digitalisation funding requested.

- 7.3 SHET's digitalisation strategy reflects a clear ambition to modernise its data architecture and enhance its capability to deliver digital services at scale. The programme is structured around three pillars: Digital Foundations, Digital Capability, and Digital Services. These are supported by a coherent set of investments that aim to improve data quality, enable more efficient asset management, and support whole-system coordination.
- 7.4 SHET has proposed a range of initiatives that demonstrate a strong alignment with the expectations set out in the SSMD. These include the development of a cloud-native data platform, deployment of digital engineering tools, and implementation of a new information management framework. These investments are grouped under four themes: Asset Intelligence, Data Platform, Digital Engineering, and Information Management. Together, they provide the technical foundation for improved condition-based maintenance, enhanced project planning, and better integration of decarbonisation pathways.
- 7.5 SHET has also embedded a governance framework to manage its data improvement programme and has proposed the creation of a Data Management and Quality Framework to formalise data responsibilities and quality assurance

processes. These proposals align well with the Data Best Practice principles on governance, quality, and accessibility, and demonstrate a clear intent to treat data as a strategic asset.

- 7.6 SHET has shown responsiveness to stakeholder needs, including through investment in customer-facing tools such as asset visualisation and interactive data layers. These are important for improving transparency and building trust in network data. SHET has also signalled its readiness to support the sector-wide Data Sharing Infrastructure, with ongoing investment in interoperability, metadata standards, and open interfaces.
- 7.7 We consider that the information provided for data and digitalisation investments in SHET's business plan is sufficiently detailed, and the proposed figures show clear, realistic justification. The proposed actions align with SHET's overall Digitalisation Strategy, support Data Best Practice principles, and create value for consumers.
- 7.8 We therefore propose to award all of the £175m requested by SHET. The proposals are consistent with our energy digitalisation ambitions, and demonstrate a structured, forward-looking approach to embedding data excellence across the business. SHET's digitalisation investments will also drive value for money for consumers by supporting creation of a more efficient, resilient and innovative system.
- 7.9 We consider that an additional £47.18m of proposed investment was miscategorised as data and digitalisation. This includes a £22.83m investment in Corporate Services and a £17.56m investment in Managing Obsolescence and Maintaining Currency. These projects aim to enhance or modernise existing IT systems and processes, managing the existing IT estate, streamlining internal processes and ensuring compliance and risk management, and are therefore better suited to the IT&T category.

Questions

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|--|
| SHETQ13. Do you agree with our proposed level of funding for SHET's data and digitalisation investments? |
|--|

8. Your response, data and confidentiality

- 8.1 All proposals published as part of these documents are draft proposals, subject to consultation. We will publish our decisions on the RIIO-3 price controls in our Final Determinations later this year. We will implement our Final Determinations by modifications to the companies' licence conditions, after further consultation on licence drafting.

Consultation stages

- 8.2 Table 11 below sets out the key stages for this consultation and how we will progress from Draft Determinations to Final Determinations

Table 11: Consultation Stages

| Stage | Date |
|--|-------------|
| Consultation Open | 01/07/2025 |
| Consultation closes (awaiting decision). Deadline for responses | 26/08/2025 |
| Final Determinations (including publication of consultation responses) | Winter 2025 |

How to respond

- 8.3 We want to hear from anyone interested in this consultation. Please send your response to RIIO3@ofgem.gov.uk.
- 8.4 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 8.5 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

- 8.6 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 8.7 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with

you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

- 8.8 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- 8.9 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

- 8.10 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
1. Do you have any comments about the overall process of this consultation?
 2. Do you have any comments about its tone and content?
 3. Was it easy to read and understand? Or could it have been better written?
 4. Were its conclusions balanced?
 5. Did it make reasoned recommendations for improvement?
 6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.

ofgem.gov.uk/consultations

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Would you like to be kept up to date with *Consultation* name will appear here? subscribe to notifications:

Email*

Submit >

Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

Appendix 1 – Summary of Engineering Review

A1.1 The table below provides details on the EJPs/OSRs that we propose to reject, or approve with reduced allowances, in the Draft Determinations. It also provides our view on a number of EJPs/OSRs in which our recommendations have not impacted any funding requests.

Table 1: Summary of SHET Engineering Recommendations

| EJP Reference | Need Case | Optioneering | Scope Confidence | Comments |
|---|------------------|---------------------|-------------------------|---|
| [REDACTED] 275kV and [REDACTED] Reprofiling T3BP-EJP-081 | Not Justified | N/A | N/A | <p>This EJP includes the request for a derogation from SQSS Section 2 and no baseline funding, therefore the outcome of our review has no impact on the allowances we propose to award in our Draft Determinations. The derogation request should be made through the formal request process.</p> <p>The Draft Determination position is to reject this EJP on the basis that the derogation process must be completed first. We also expect SHET to review the Cost Benefit Analysis (CBA) and provide evidence of the progress to date on the derogation for this project.</p> |
| [REDACTED] 132kV T3BP-EJP-080 | Not Justified | N/A | N/A | <p>This EJP includes the request for a derogation from SQSS Section 2 and no baseline funding, therefore the outcome of our review has no impact on the allowances awarded in this Draft Determination. The derogation request should be made through the formal request process.</p> <p>The Draft Determination position is to reject this EJP on the basis that the derogation process must be completed first. We also expect SHET to review the CBA and provide evidence of the progress to date on the derogation for this project.</p> |
| Flood Mitigation T3BP-EJP-034 | Justified | Not Justified | Low Confidence | <p>The need case for SHET's Flood Mitigation portfolio is justified as we accept there are wider global warming trends which will lead to additional flood risks materialising.</p> <p>The optioneering is Not Justified because the level of detail provided is not sufficient for us to understand with enough clarity as to why the proposed options are appropriate.</p> <p>This EJP reports there are nine substations at risk of flooding requiring intervention and an additional 55 substation basements which need sealing. We agree that the needs case is justified. We consider that the optioneering is not robust as only the preferred option is presented for each substation. Our confidence in the scope is low as there is no formal town and country planning in place.</p> |

| EJP Reference | Need Case | Optioneering | Scope Confidence | Comments |
|---|------------------|---------------------|-------------------------|--|
| | | | | Our consultation position is reflected in the PAM output. For us to assess SHETs optioneering as justified further information is required on the sites and location of interventions. Where works are required beyond the existing site boundaries, evidence of town and country planning would be desirable. |
| Shetland On-Island Infrastructure T3BP-EJP-085 | Justified | Not Justified | <i>Low Confidence</i> | <p>The need case for SHET's Shetland On-Island Infrastructure is Justified as it is in line with CP2030 planning. While we are supportive of this, we note that generation connections in very remote locations are likely to have increased sensitivity to future Spatial Energy Planning.</p> <p>The Optioneering is Not Justified on the basis that SHET's voltage selection appear to limit future optionality and is not in alignment with works on other parts of its' and the wider GB network.</p> <p>We note that SHET has requested approval for need and preferred solution to release PCF funding and provide access to the Advanced Procurement Mechanism, with a full cost submission via a load-related reopener. We consider the optioneering presented to be inadequate as it does not appear to consider holistic transmission and distribution network design.</p> <p>Our consultation position is reflected in the PAM output. For us to assess SHETs optioneering as justified further information is required on the voltage selection, long term impacts, and wider implications of a 220kV solution.</p> |
| Steady-State Voltage Paper T3BP-EJP-086 | Justified | Not Justified | <i>Low Confidence</i> | <p>The need case for SHET's Steady State Voltage Paper is Justified as these works have been confirmed as needed via the NESO. Furthermore it is clear these works will not impact the NESOs Pathfinder processes. The optioneering is Not Justified as there is limited site data to support the scope of works planned.</p> <p>We note that SHET has requested approval for need and funding via the Load Re-opener to secure supply chain early.</p> |

| EJP Reference | Need Case | Optioneering | Scope Confidence | Comments |
|--|------------------|---------------------|-------------------------|--|
| | | | | Our consultation position is reflected in the PAM output. For us to consider SHET's optioneering justified, we will need to further and adequately explained the site and scope details. This will include support future reopener works. |
| Telecoms Network Infrastructure Update T3BP-EJP-027 | Justified | Partially Justified | Low Confidence | <p>The need case for SHET's Telecoms Networks Infrastructure Paper is Justified as the existing system requires intervention.</p> <p>The optioneering is Partially Justified as there were issues with SHETs SQ responses.</p> <p>Our consultation position is reflected in the PAM output. For us to consider SHET's optioneering justified, we require our original SQs to be responded to in full via secure data transfer systems.</p> |
| [REDACTED] - Noise Mitigation Strategy T3BP-EJP-022 | Not Justified | Partially Justified | Low Confidence | <p>The need case for SHET's [REDACTED] Noise Mitigation Strategy Paper is Not Justified as requirement to comply with planning permission conditions has been previously funded.</p> <p>The optioneering is Partially justified, as while it is likely a restringing will be required, SHET did not provide sufficient non-built options.</p> <p>We expect licensees to comply with the planning conditions that are in place when they are funded to deliver works. In this instance our view is that SHET have been funded and so additional works are to be completed within existing SHET allowances. In instances such as this we would also expect, given the costs and outage impacts, that SHET considered a wider range of Non-Build options to mitigate the noise issues.</p> <p>Our consultation position is reflected in the PAM output. For us to consider the need Justified, SHET will need to provide more detail as to why the original funding, scope of works and delivery was in line with the planning conditions and that this is completely out of its control.</p> |

Appendix 2 – Privacy Notice on Consultation

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

We will not share your personal data with any other person or organisation.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for 12 months after the project is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data

- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".