

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

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Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs. From growing start-ups to major electricity generators, grid and infrastructure developers and energy suppliers, our members are driving change across power, heat, transport and flexibility. We provide a collective voice for the sector, working with governments, regulators, charities and other organisations to provide crucial insight that shapes policy, offers solutions and promotes best practice. Our broad view across the whole system supports evidence-based positions which are not tied to particular technologies, and are focused on delivering strategic benefits for people, businesses and the economy.

Executive Summary

Energy UK welcomes the consultation on RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors. The planned improvements to GB energy networks to enable a more cost-efficient, secure, and low-carbon energy system are welcome. Energy UK strongly supports these proposed investments given their role in bolstering GB growth, supporting the uptake of low-carbon technologies, increasing the UK's energy independence, and delivering the estimated energy bill savings for all consumers.

Our response is set out in parts, responding to

- RIIO-3 Draft Determinations – Overview
- RIIO-3 Draft Determinations – Impact Assessment

Energy UK would note the following core positions regarding the overarching proposals set out in this consultation:

- There remains a need for further consideration of the impact on energy bills in both the near- and longer-term, and the need for certainty on how to protect customers and ensure the financial viability of the retail, networks, and generation sectors. This includes:
 - A risk of bad debt increasing and wider impacts for non-domestic suppliers due to being unable to recover the cost to serve from existing fixed-price contracts, which make up a significant amount of many retailers' portfolios.
 - The risk of households being pushed into fuel poverty without an appropriate policy support mechanism in place to support those consumers. The FCA

- reported in 2024 that over 7 million (~14%) people felt “heavily burdened” by domestic bills and credit commitments. Unaffordable bills risk impacting on public support for the transition, directly related to Ofgem’s Statutory Duties on Net Zero and on protecting consumers.
- A further risk is presented by the undefined cost of uncertainty mechanisms, with no clarity for consumers or energy companies over the anticipated cost implications for energy bills.
 - Implications of bill rises on GB growth, relating in particular to the sectors identified in the industrial strategy, but also to the wider economy.
 - It is critical that better signposting of the interactions between different workstreams is delivered. Coordination of price controls with SSEP, RESP, and connection queue changes, the end-to-end review of connections, and the coordination of network charging in the near term with the wider context of longer-term reforms to cost allocation and recovery must be set out across workstreams.

Energy UK is concerned that these draft determinations and the anticipated impacts have not been communicated widely across government departments and Ofgem teams. Further discussion, at all levels of seniority, is required to prevent significant negative impacts on the retail energy market, prevent unintended consequences for customers, and prevent the politicisation of the RIIO framework.

Beyond these specific concerns regarding the Draft Determinations, the process to date has highlighted the need for a full review of the approach taken by NESO in setting out predicted rates of network charging. The current process resulted in vastly underestimating the increase to TNUoS. These predicted costs remain the only publicly available information on the expected changes in charging levels, used by many businesses and energy retail companies to set prices for energy services.

If you would like to discuss this response in further detail with Energy UK and its members, we would welcome further engagement.

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Consultation Response Section One: RIIO-3 Draft Determinations – Overview

OVQ1. We would welcome any views on the enduring role of the ISGs during RIIO3 and for future price controls.

Stakeholder input is essential for RIIO-3, and Energy UK is not confident that the process included sufficient engagement with energy retail companies and business users, resulting in a lower level of focus on non-domestic impacts under the impact assessment. Likewise, it is unclear if Ofgem fully engaged with all consumer types or consumer representative organisations to fully understand the implications of an 87% uplift in transmission network charges, and wider increases in gas network and electricity distribution network costs on affordability and fairness.

The intended investment, and an effective route to recovering these costs, is absolutely critical, and Energy UK is wholly supportive of delivering investment across electricity networks to enable wider electrification and an accelerated transition to a more cost-effective and lower-carbon energy system. The recovery of this investment, which will benefit all consumers, must be recovered fairly and transparently, with the justification explained and any increased costs set out to consumers and the industry in advance.

This lack of comprehensive engagement will be evidenced in the number of Energy UK members expected to respond to this consultation with a confidential annex detailing the potential impacts on their specific business operations. It may be beneficial to utilise the ISGs in future as a method for clarifying the anticipated levels of cost changes and implications for consumers, energy retailers, energy generators, and others across the energy system. This could help to reduce the high levels of uncertainty surrounding network charging forecasts.

Feedback should be considered in the context of the wider policy outcomes and priorities set by the Government and defined in Ofgem's statutory duties. Ofgem must examine its role in supporting national and regional growth by setting out a clear case for investment in network infrastructure. Without this engagement, consumers will continue to direct frustrations toward networks, generators, and suppliers for increasing costs on bills, and for increased build-out of infrastructure, the purpose of which has not been clearly explained. ISGs may be one of a range of useful routes to defining this approach.

The fact that 70% of responses to the Call for Input for the ISGs were from groups taking the chance to oppose overhead lines may highlight the need to review the way feedback from the Independent Stakeholder Groups (ISGs) is treated. It is not sufficient for Ofgem to state that action on this issue is outside its purview, given that Ofgem is ultimately responsible for approving the funding of overhead lines. Nor is it sufficient for Ofgem to refer to the ongoing work on Community Benefits as an answer to this feedback from stakeholders.

As the UK rapidly builds out the transmission system, major delays can come from planning delays and local opposition. Setting out the case for investment and the reasoning for decisions like delivery of overhead, onshore lines over more costly underground or offshore cabling.

While it is welcome to see a commitment to improving the adaptability of ET-3, Ofgem should be considering how to integrate this adaptable approach to planning to address issues regarding local opposition and planning disputes.

This can be done by drawing on local surveys or more sophisticated MRP data within the business plans regarding local opposition in certain areas to pylons and other infrastructure. This is something geospatial mapping companies are already making headway in doing.

OVQ2. Do you agree with our proposed position on the Environmental Action Plan and Annual Environmental Report ODI-R for RIIO-3?

Energy UK broadly agrees that the proposed position seems sensible.

OVQ3. Do you agree with our consultation position to create a new common mechanistic PCD for ZEV and associated infrastructure costs?

Energy UK supports Ofgem's pursuit of more granular information from networks on the lack of suitability of certain types of Zero Emission Vehicles (ZEV) for their activities. This should be compared against information obtained from third-party sources for verification.

Energy UK would encourage Ofgem to carefully consider the price control deliverable (PCD) within the baseline allowance in light of recent and potential future direct government support for up-front low-carbon vehicle funding, like the [recent grant scheme](#) announced by the Department for Transport (DfT), and the workplace charging scheme. This needs more explicit spelling out in the Draft Determinations (DDs). It is essential that networks regularly update their business plans for how much they are spending on ZEVs and associated infrastructure compared to what they get in taxpayer support to ensure the PCD reflects networks' actual spending plans from their own budgets.

Further clarification is needed as to why this incentive is not extended to gas transmission.

OVQ4. Do you agree with our proposed approach to measuring Baseline Network Risk Outputs and our application of the NARM mechanism?

In principle, Network Asset Risk Measure (NARM) outputs allow networks to trade off what interventions they undertake to deliver a risk reduction output, and are now being used to micro-monitor each intervention made. Furthermore, this and other changes have led to dramatic increases in the scale of in-period reporting, creating an increased burden and cost for Ofgem, with questionable benefit for customers.

The level of complexity in the regulatory framework under RIIO-2 today is disproportionate to that required to ensure networks are delivering predictable services in the right manner for customers. This is notable in the case of the NARM framework, where this should be returned to its original intent by providing a single or small number (e.g. asset category level) of risk reduction targets to meet over a control period or specified length of time. This would then allow customers to be assured of asset health improvements they are receiving for base expenditure, whilst minimising the burden and uncertainty over actual investment planning for Ofgem and networks.

In principle, this aligns with Ofgem's approach to improve consistency of reporting and transparency, without the questionable need for greater granularity of reporting.

OVQ5. Do you agree with our proposed approaches to calculating the funding adjustments and to the application of penalties?

The proposals to maintain the Clearly Identifiable Over or Under Delivery (CIO/UD) structure are broadly sensible. As is the use of this to inform the Funding Adjustment Mechanism.

Energy UK members have cautioned about the risk of overly burdensome bespoke reviews at close-out, which Ofgem is unlikely to have the resources for, given the volume of system expansion work expected during RIIO-3.

There remains a need for a streamlined approach and use of improved levels of standardised data from the Data Sharing Infrastructure (DSI).

OVQ6. Do you agree with our proposed approaches to improving the NARM framework?

The proposed approaches are broadly sensible.

More focus is urgently needed on reducing the regulatory burden for Ofgem incurred by NARM Funding Mechanism Adjustments, given the anticipated volume of network expansion.

OVQ7. Do you agree with our proposal for the physical security PCD?

Yes

Further policy adjustments to the treatment of Critical National Infrastructure (CNI) within the price control needs to be considered, in line with the recommendations from the findings from [NESO's review of the North Hyde substation fire](#).

OVQ8. Do you agree with our approach taken to review of the Climate Resilience strategies?

It is disappointing that the climate resilience guidance was not produced in time for RII0-3 for the energy-regulated sectors, except gas distribution. Energy UK supports an urgent review, and for the findings to be implemented into RII0-3 at the appropriate juncture.

Special care should be taken to ensure strategies and guidance produced are aligned with the need for network expansion, as this does not make it cost-prohibitive in key areas.

Climate adaptation is not an isolated policy space, and the Climate Resilience Strategies should be aligned with both the government's third National Adaptation Programme, drawing upon the extensive existing plans of network companies for adaptation.

The latter can be found as part of the [Adaptation Reporting Power \(ARP\)](#) process, and drawing upon this extensive existing knowledge can help bring network companies onto the same level playing field for adaptation standards. The resilience strategies could even play a role in spreading standards across network companies.

OVQ9. Do you agree with our views on the Workforce Resilience Strategies?

Yes, Energy UK supports more detailed workforce data and planning by the regulated networks and consideration given to how they can attract and retain a wider, diverse pool of talent, considering alongside this how such an approach may impact on future resilience and costs.

Whilst planning at the individual company level is welcome, it will not address the structural, economy-wide challenges faced. As set out in the Government's Modern Industrial Strategy 2025, the skills shortfalls faced by energy networks are common to other energy sectors and key growth sectors such as advanced manufacturing and construction. Training provision needs to be increased nationally to fill key skill gaps, and this must be delivered on a coordinated national basis.

Attracting new staff and upskilling existing staff will depend on successful partnerships between the Government and industry, and the successful delivery of strengthened policy and funding interventions.

Energy UK welcomes commitments in the Industrial Strategy to align skills provision with shortages in the eight growth sectors, and the targeted use of additional public funding. Further detail in the upcoming Clean Energy Workforce Strategy will be welcome, and this must be coordinated with network price controls to ensure skills deficits do not become the next blocker to delivery.

The additional public funding secured through the Spending Review is welcome after years of decline. Significant private sector involvement is required to deliver this step change in training provision. Greater pipeline certainty and industry-wide mechanisms are required to enable greater private sector investment in training. Energy UK welcomes initiatives emerging across the Transmission Operators to fund and coordinate training across the networks sector. Consideration of the competition implications of any agreement must be under review from Ofgem, both in terms of the impact on competition between TOs and any impact on the ability to attract and retain talent across TO, DNO, GN, IDNO and other sectors.

Of particular concern is the skills gap across the supply chain, where smaller, less well-known companies can struggle to attract staff with the necessary skills. Access to support for SMEs from both the Government and energy companies, providing materials and guidance to attract and train staff, will be vital.

OVQ10. Do you agree with our views on the Supply Chain Resilience Strategies?

Energy UK agrees with the use of the Advanced Procurement Mechanism (APM). However, this is not enabling the proactive approach to supply chain security that is needed and is currently being applied in other, competing markets. The UK is at risk of failing to meet its 2030 target because of a lack of strategic focus on supply chain development and resilience.

Work is currently being led by the Electricity Products Supply Chain Council (EPSCC) alongside the Department for Business and Trade (DBT) and DESNZ to conduct a definitive workstream on the critical needs and bottlenecks in the electricity network supply chain, as well as where there might be 'value for money' in intervention to secure the supply chain. Energy UK strongly encourages Ofgem to engage with and align with this policy workstream, using the outputs of the EPSCC's work to inform targeted measures to secure the supply chain, where possible, within RII0-3.

In the longer term, Ofgem must work closely with the National Wealth Fund (NWF), DBT, and the Department for Energy Security and Net Zero (DESNZ) to enable a truly harmonised proactive joint procurement framework between the network companies as well as a coordinated, standardised order book across wider competing energy technologies, as similar supply constraints are being felt across both offshore and onshore generation and network build-out. The considerations of how this framework will operate and the potential impact of any requirements to source components from

the UK within RIIO-3 are crucial to securing the supply chain at an affordable rate for consumers.

The outputs of the network growth plan should be used to inform where strategic funding from NWF and GB Energy can be best used to maximise the benefit of the £1bn of supply chain funding available.

Public funding in domestic supply chains will be insufficient. There also needs to be consideration of the current approach to offshore network build to enable a more coordinated network build-out and greater standardisation. This would enable a long-term pipeline of key components to develop.

Wider policy changes, such as changes to the contracts for difference framework, could help secure investment in domestic manufacturing, making key components common to both networks and renewable generation projects and could be considered for Allocation Round Eight (AR8). These changes must be coordinated across price controls, regulatory frameworks, spatial energy planning processes, and any other policy areas of relevance.

OVQ11. Do you agree with the equal weightings applied per criteria/rating for the 'Clarity scorecard' and the 'Business Plan Commitments scorecard' for the Stage C assessment?

Energy UK would note that the following changes would be appropriate.

“Accessibility and conciseness” and “clarity of information that supports the demonstration of value to consumers” should each be given a slightly heavier weight in the clarity scorecard. These criteria are more important to the overall purpose of the business plan and the objectives of RIIO-3 against Ofgem’s objectives and duties.

“New company proposals” should be given a slightly lower weighting compared to the other ratings in the Business Plan Commitments. It is more important for consumers and the sector as a whole that plans are deliverable, ambitious, and provide consumer value and additionality rather than being novel.

OVQ12. Do you agree with the weightings applied per outcome for each sector for use in the Stage C - Business Plan commitments assessment?

Energy UK broadly agrees with the weightings given for the outcomes in each sector.

However, given the need to enable a transition to more electrified heating cost-effectively, in line with the expansion of the electricity network, further consideration of giving “infrastructure fit for a low-cost transition to Net Zero” equal weighting to “secure and resilient supplies” would be appropriate.

6. Managing Uncertainty

OVQ13. Do you agree with the use of a default materiality threshold and its level?

The 0.5% of annual *ex ante* base revenue threshold for materiality triggering a re-opener appears appropriate. This is in line with what the sector called for in the past, while still maintaining a degree of control over spending and incentivising more efficient use of uncertainty measures.

However, given the scale of spending in the draft determinations eligible for price controls, it raises the question of whether uncertainty mechanisms are fit for purpose going forward, especially at the lower voltage and bar levels. There is a need for a more adaptable system that manages uncertainty going forward.

Recently, the RIIO-ED3 SSMD working group proposed the use of a 'timely addition of network capacity incentive' (TANCI). This incentive would improve the 'tradability' of allowances for network companies' uncertainty allowances to adapt to unforeseen developments. A network would be required to achieve a certain number of goals in an area concerning capacity addition, project delivery or enablement, for a single General Service Point (GSP) or region.

Using this approach would require a level of scrutiny to ensure incentives were appropriate and that whole-system planning is being enabled between networks. Energy UK would encourage Ofgem to consider such an approach to uncertainty for areas where there is high uncertainty for RIIO-3. Alignment of the approach across ASTI, CSNP-F, TANCI, and wider uncertainty mechanisms across networks would be welcome.

OVQ14. Do you agree with our proposed amendments to the CAM for RIIO-3?

Energy UK agrees with proposals to allow an Authority trigger for Cross-sector adjustments to the price control based on NESO advice and allowing the submission to be made on an *ad hoc* basis instead of once annually.

There remains a need for the origin and rationale for an adjustment to be done transparently for the sector.

Important to express how the adjustment facilitates the SSEP, CSNP and the benefits of whole system planning.

OVQ15. Do you agree with our proposed design of the NZARD UIOLI?

Energy UK agrees that the Net Zero and Re-opener Development (NZARD) use-it-or-lose-it (UIOLI) allowance should only apply to gas transmission and gas distribution.

The scale of uncertainty mechanisms for electricity transmission, by contrast, is already substantial and other mechanisms can be used for small works related to Net Zero.

Energy UK also agrees with the view from Ofgem that larger allowances for hydrogen-related projects are not needed, especially given the existence of government support mechanisms through the Hydrogen Business Models (HBM).

OVQ16. Do you agree with our proposed design of the NZASP re-opener?

Energy UK agrees with the proposed NZASP design. The proposal to widen coverage of the re-opener to RESP coordination and gas leakage limitation, given the level of uncertainty around these works, is also sensible.

As in response to Question 13, this would be a key area where an approach like TANCI could play a role.

OVQ17. Do you agree with our design proposal for the resilience re-opener?

Energy UK broadly agrees with this proposal. It is right that Ofgem consider the impact of changing government legislation and changes to protocols for the National Risk Register as key areas for the re-opener to focus on.

Ofgem should consider the recommendations and proposals from NESO's review of the North Hyde substation fire concerning the treatment of Critical National Infrastructure (CNI) and how this interacts with the re-opener.

OVQ18. Do you agree with our proposed approach to RPEs?

Energy UK agrees with the decision not to account for the cost of specialist labour in the absence of a suitable index. Important that Ofgem is clear about what the industry can do to help produce a suitable index, given how great labour shortages in the sector are. Ofgem should also be clear if it would be willing to reverse this decision if an appropriate index were established.

Energy UK also agrees that adding time-lagged indicators within the Real Price Effect (RPE) index to harmonise costs with when they are incurred would add complexity, which may be unnecessary over the five-year period. Ofgem should consider, in the future, weighting RPEs more regionally, based on the cost profiles of regional plans, as the UK moves towards a system more defined by RESP. However, such an approach may be unnecessary for RIIO-3.

Energy UK also agrees with the decision to maintain the current approach to true-up RPE costs based on outturn data.

Support Ofgem's choice to consider a project-specific approach to reopeners based on RPEs under Accelerated Strategic Transmission Investment (ASTI) projects. The TOTEX Incentive Mechanism (TIM) already provides good protection against RPE fluctuation.

Lowering the thresholds for the TIM sharing factors is also appropriate. Given the significant pipeline of projects expected during RIIO-3, it makes sense to allow companies to share more of the costs to mitigate the impact should overspending occur. Similarly, networks should socialise more of the benefits of underspending should this occur. This needs to be robustly implemented to ensure that benefits are indeed passed on to consumers when there is underspend and that the appropriate degree of costs are passed on to consumers.

8. Cost of Service

OVQ19. Do you agree with our proposed approach to ongoing efficiency?

Energy UK supports a balanced approach to Ongoing Efficiency (OE) improvements that is sufficiently stretching and accounts for likely technological innovations in the coming years, especially in loss mitigation technologies and artificial intelligence (AI).

Ofgem should seriously consider applying OE expectations to uncertainty mechanisms, given the scale of those proposed in these draft determinations.

The increase in gas transmission system investment compared to RIIO2 is important for system reliability and requires a significant scale-up of National Gas Transmission's maintenance activity. An important part of the RIIO-3 plan will be ensuring that the right incentives are in place to deliver this. However, the draft maintenance incentive as outlined on Page 56 of the Gas Transmission Annex, under Maintenance (ODI-F) 3.179, raises concerns.

The current UNC arrangements, where maintenance can occur outside of the maintenance window (April to October) with the affected users' permission, appear to work appropriately. However, NGT would not receive their incentive for maintenance outside of this window. Where there is maintenance requiring pipeline flows, users may prefer this maintenance to occur in the shoulder months rather than the height of summer, but NGT would be incentivised to undertake maintenance in April-October only.

There is a clear risk that the incentive has encouraged NGT to raise UNC0907 to extend the Maintenance Period to include March and November. The actual

arrangements for scheduling and undertaking maintenance are not the issue, the draft incentive is. In practice, it is important to carefully consider the impact on users during March and November. For example, power generators are required to be available to provide security of supply in November, which can often be the peak electricity demand month, but this modification proposal would give NGT the right to impose certain types of maintenance on these plants in March and November.

A case-by-case approach, as per the current arrangements, would be beneficial for security of supply and cost efficiency. Hence, the incentive should be amended so that affected users' acceptance and approval of any maintenance proposed outside of the April-October window should also be rewarded.

10. Innovation

Network Innovation Allowance

OVQ20. Do you agree with our proposed NIA funding levels?

Energy UK broadly agrees with the proposed NIA funding levels. The key assessment criteria for workstreams should more specifically include innovations aimed at system savings given the importance now of limiting system costs to consumers.

OVQ21. Do you agree with our approach to the future of gas-related workstreams?

Energy UK agrees that, especially given the existence of funding in other areas, NIA funds for hydrogen heating or blending should be paused until the Government's decisions in these areas are made.

OVQ22. Do you agree that £2.5m of additional NIA should be used to provide enhanced advisory services for innovators at the early stages of innovation development?

Energy UK broadly supports the use of this, though scrutiny is needed to ensure funding is directed at appropriate advisory services for early-stage innovators.

OVQ23. Do you agree with our approach to improving oversight and reporting of the NIA?

Energy UK broadly agrees with the proposed approach. The changes to oversight and reporting must be made transparent to all relevant stakeholders.

It would be beneficial to have closer monitoring of innovation rollout across the networks and, under new proposals, wider companies to ensure that rollout happens

at the right place and consumer funding of innovation can deliver on proven benefits. Better publication of this information would allow industry to flag and request wider implementation of innovations that could deliver benefits. These benefits should not be limited to those accrued to energy networks, but also those which would benefit consumers, Net Zero, or the entire industry.

Strategic Innovation Fund

OVQ24. Do you agree with our proposals to allocate £500m for SIF funding?

Yes.

OVQ25. Do you agree with our proposals to introduce a 'Programmatic Approach' to the SIF?

Yes.

This approach will only be effective if the themes progressed are appropriate, developed in coordination with a wide range of industry stakeholders, and progressed accordingly based on clear intended timelines and outcomes. It would be beneficial to have a specific focus on delivering constraint reduction in the short term, given the significant risk of increased cost for consumers and industry.

OVQ26. Do you agree with our proposal to introduce a £50m deployment fund, utilising £50m from the total £500m SIF allocation?

Energy UK broadly agrees with this proposal. Important that the approach to selecting which innovations are deployed considers a wider criteria than the direct benefits to networks, including impacts on consumers, incentivising flexibility and wider impacts on investment, growth, and Net Zero.

OVQ27. Do you agree that the deployment fund should also be open to innovation projects that haven't been funded through NIA, NIC or SIF?

Energy UK broadly agrees with this proposal. Clear guidelines for all projects in terms of the evidence requirements and wider administrative requirements should be set out clearly from the outset to ensure all projects can apply for this funding in a fair and transparent process.

OVQ28. Do you agree with our proposal to reverse the SSMD position of removing the Discovery phase from SIF?

Energy UK broadly agrees that this proposal seems sensible to reduce barriers to entry.

OVQ29. Do you agree with our proposals to retain the core aspects of the SIF for RIIO-3?

Energy UK broadly agrees with this proposal.

OVQ30. Do you agree with our proposals for a more flexible approach to contribution rates to fund SIF projects?

Energy UK broadly agrees with this proposal.

OVQ31. Do you agree with updating the SIF eligibility criteria and assessment process?

Energy UK broadly agrees with this proposal. If it is aimed at being more outcome-led, a key focus must be on improving system efficiency.

OVQ32. Do you agree with our proposal to establish a direct pathway for transformative projects to seek Ofgem's support for funding?

Energy UK strongly agrees with this proposal. It is a failing of GB innovation funding to date that networks have become the gatekeepers of potentially transformative innovations.

OVQ33. Do you agree on the need to clarify roles and responsibilities within the innovation ecosystem, and the factors that we should consider?

Energy UK broadly agrees with this proposal. More clarity on how this would be achieved is needed.

OVQ34. Do you agree with our approach to improving reporting of deployed SIF projects and lessons learned post-funding?

Energy UK broadly agrees with this proposal. Opportunities for third parties to input on the ENA workstream to improve reporting would be welcome. The same level of transparency should be applied across innovation workstreams and organisations where possible, including NIA projects.

11. Cyber Resilience

OVQ35. Do you agree with our proposals for the Cyber Resilience re-opener?

Yes

12. Data and Digitalisation

OVQ36. Do you agree with our position of not changing the Digitalisation licence condition?

While Energy UK broadly agrees with this position, this decision must be kept under consideration as wider changes and digitalisation processes are delivered across the sector. Much of the work delivered to improve network data visibility and processes have been voluntary, and the success, or otherwise, of these improvements may require further intervention from Ofgem. Expanding this License Condition to require better publication of modelling, inputs, assumptions, and near-real-time data would allow for better industry understanding and engagement.

OVQ37. Do you agree with our proposed approach to the DSI licence condition?

[For context, the DSI itself is currently under development and may not be fully operational when RIIO-3 licences come into force. Ofgem are considering their approach on how this can be best handled.]

Yes

OVQ38. Do you agree with our proposed design of the Digitalisation re-opener?

Energy UK broadly agrees with this proposal.

Digital and data technologies evolve faster than the price control process allows for, and while the DSI and data best practice approaches are making welcome changes in this space, Ofgem must retain the right to adjust and update expectations for networks throughout the price control period. This re-opener, in particular, the ability for the authority to trigger this, is therefore welcome.

Given the increasing importance of digitalisation as an enabler to a smarter, more cost-effective energy system, Ofgem should consider whether further incentives and obligations should be implemented to encourage electricity transmission networks to rapidly improve their capabilities and increase the application and transparency of data across networks.

Ofgem should commit to closely monitoring the approach taken by networks in delivering digitalisation and open data improvements to holistically review performance, address gaps in delivery, and update funding and obligations across networks at the same time that the re-opener is triggered. This should take into account all ongoing digitalisation workstreams across the sector to ensure alignment of RIIO with wider policy and regulatory changes and priorities.

General feedback

1. Do you have any comments about the overall process of this consultation?

Energy UK is disappointed in the amount of engagement across government and regulatory bodies in this process. On numerous occasions, Energy UK has been the first to raise concerns about the expected uplift in network costs that will begin in April 2026, finding that officials across the Government, but also other teams within Ofgem, were unaware of the scale of the proposed increase in costs on bills. This is a fundamental failing in the approach taken to delivery and suggests a siloed approach to development, with only a specific team within Ofgem and the networks themselves fully aware of the anticipated outcomes until this late stage.

There remains a need for more clarity on how this is aligned with other workstreams. For example, how will the framework ensure the right amount of flexibility to enable spatial planning, a reformed connections queue, and an effective approach to cost recovery and allocation to be embedded into the approach over the five-year price control period.

Clear issues are apparent in the estimated cost impact for energy bills, and the disparity between those expressed in the Draft Determinations and those set out in the NESO's estimates in April. Ofgem and NESO should work closely to ensure accurate predictions of cost increases are set out in advance in order for the industry to have a clear understanding of the potential implications for service offerings, and to enable time to implement policy measures to protect consumers from negative impacts.

These impacts also need to be raised to governmental departments at this stage, given the political implications of any sudden increase in network costs on energy bills for households and businesses.

It is not appropriate that there are no questions in the main document regarding Section 9: A stable and predictable financial framework. There are fundamental issues with the predictability of the framework, given the massive potential for reopeners in the coming five-year period.

2. Do you have any comments about its tone and content?

The RIIO documents are not accessible to the entire industry. While the historic approach may have been appropriate, as the energy sector diversifies both in technology types and in business models, and as more consumers attempt to understand and engage with energy in new ways, more clarity may be needed.

Network charges impact on generators, retailers, aggregators, technology providers, and consumers. The complexity of the RIIO process and documents is so extensive that Energy UK often hears from a range of these stakeholders a concern that this

complexity is manufactured in order to keep the level of engagement to a minimum. It is also often noted that the only organisations with full visibility of the needs of any given network are the network operators themselves. Energy UK does not believe that the parties involved in the RII process are purposefully obfuscating, but the perception has impacted on industry confidence in the regulator for other parties. Creating a simple explanatory document that sets out specific elements of the proposals would be welcome in addressing that perception and ensuring that all stakeholders are able to understand and engage with the process.

Such a document should include:

- The allowed rate of return for network companies in both percentage and specific estimates of the amount of consumer funding expected to be delivered to Network shareholders.
- A clear prediction of network charging costs over the price control period for a range of consumer types.
- The amount of investment anticipated, not solely in the agreed funding but also in a prediction of the uncertainty mechanism impacts that could be delivered.
- Clear facts and figures on the benefits of the investment and how these benefits will be delivered to consumers.

3. Was it easy to read and understand? Or could it have been better written?

The Overview document should include a single list of the consultation questions.

The consultation questions should include a question for each section asking for any comments, even where Ofgem does not consider any further information necessary. In this consultation, the lack of a question on the cost implications for consumers or the wider industry is a clear omission.

4. Were its conclusions balanced?

5. Did it make reasoned recommendations for improvement?

6. Any further comments?

The disparity between the NESO April publication of predicted TNUoS cost increases and the costs set out in this consultation raises a clear signal that the current process for NESO assessment of these costs is insufficient to meet its licence obligations. Ofgem should investigate why the figures provided by TOs to NESO were so far from being accurate, and whether or not energy code obligations are interfering with the NESO's ability to deliver accurate forecasts of future network charges.

Given that these forecasts are the main publicly available information used by energy retail and energy service providers to estimate costs, it is critical that Ofgem better engage with industry to give forward notice of expected uplifts in network charges, and that the authority be prepared to challenge the NESO when estimates are inaccurate.

Consultation Response Section Two: RIIO-3 Draft Determinations Impact Assessment

IAQ1. Do you agree with our approach to assessing the economic impacts of RIIO-3?

Energy UK is not convinced that Ofgem has adequately modelled the impacts of the uplift in network costs. Given the discrepancy between the proposed 87% increase in TNUoS charges, compared to much lower April forecasts set out by the NESO, there are clear implications for domestic and non-domestic energy retail companies and for businesses and households themselves.

Consideration of the impacts of increased 'fast money' recovery is critical across all consumer types to best understand the likely implications for customers, policy-makers, retail energy companies, and businesses across the UK. While benefits from the build-out of network infrastructure are clear, and the ongoing review of cost allocation and recovery is a welcome step toward enshrining fairness in the approach to network charging, these measures will not deliver for consumers until 2027/2028 at the earliest.

A full consideration of the total bill impact of changes to network charges and wider costs on bills is required, and the Ofgem review of cost allocation and recovery is welcome, though it will not be delivered in time to address any unintended impacts of the April 2026 uplift.

It is also important that Ofgem use up-to-date information in its impact assessment. Ofgem notes that constraint costs would be reduced if 50% of CP2030 projects were delayed. There are already estimates that over 50% of CP2030 projects are already delayed, with most delayed by more than two years. Ofgem must use accurate information about current timelines for connections of projects and delivery of critical grid upgrades in order to accurately estimate the costs and benefits of the proposed RIIO-3 approach.

IAQ2. What are your views on the appropriate approach to evaluation of the economic impacts of RIIO-3?

Given the addition to Ofgem's duties of a statutory duty on growth, further consideration of the impacts of increased network costs, and as such increased standing charges, should be incorporated into the approach. Standing charges and the wider cost of energy are critical parts of the affordability of doing business in the UK. It is unclear if Ofgem has fully considered the impact for core sectors of the anticipated increase in costs. In particular, Energy UK is not confident that Ofgem has fully evaluated the potential for supplier failures and wider economic impacts that a significant uplift in network charges could result in.

Investment in networks, and therefore the recovery of those costs, is a critical element of the approach to delivery at such a scale. An investment approach to enable networks to deliver across the price control period is critical, but the approach taken to setting and communicating these processes is not sufficient to deliver certainty to networks, generators, or retailers.

To enable industry to properly engage with this modelling, and any modelling across network and economic models, the process must be transparent. This must involve publication of any inputs, outputs, and assumptions throughout the process.

IAQ3. Do you agree with our approach to modelling the bill impacts of RIIO-3? Please provide any additional effects or alternative measures that you think would be appropriate.

There is a clear need for further consideration of the impact on affordability for the energy retail sector and consumers, and there is a need to examine the role of Ofgem in clearly explaining the reasoning behind bill increases to consumers well in advance of April 2026.

More information on the underlying causes of constraints would also be helpful, both in terms of the locational details and of if these relate to internal grid congestion or system-level curtailment. This will help to feed into the wider process of developing and delivering targeted investment, spatial energy planning, and locational price signals.