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### Ofgem

Network Price Controls

National Energy System Operator

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### **RIIO-3 Draft Determinations for the Electricity Transmission, Gas Distribution and Gas Transmission sectors**

Dear RIIO3 team,

Thank you for the opportunity to respond to your consultation on the RIIO-3 Draft Determinations (DDs).

#### Who we are

NESO lies at the heart of the energy system as an independent, public corporation responsible for planning Great Britain's electricity and gas networks, operating the electricity system and creating insights and recommendations for the future whole energy system.

At the forefront of our efforts is delivering value for consumers. We work with government, regulators and our customers to create an integrated future-proof system that works for people, communities, businesses and industry.

NESO's primary duty is to promote three objectives: enabling delivery of a cleaner, affordable and reliable energy system for current and future consumers. NESO will take a whole system approach, looking across natural gas, electricity and other forms of energy and will engage participants in all parts of the energy ecosystem to deliver the plans, markets and operations of the energy system of today and the future.

#### RIIO-3

The RIIO-3 price control period is of crucial significance for the UK energy system. The scale of investment required is unprecedented and decisions we make now will be key to meeting the government's Clean Power 2030 commitment and achieving Net Zero by 2050.

We welcome Ofgem's ambition to establish a strategic and adaptive framework. The expanded re-opener pipeline is a significant development, reflecting a step-change in the volume of in-period decision-making within the regulatory process. The success of this initiative depends on carrying out proportionate, risk-based assessments. It's crucial to find the right balance between maintaining robust scrutiny to ensure consumer benefits are realised and avoiding regulatory bottlenecks that could impede the speed of decision-making.

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At NESO, we are fully committed to working closely with Ofgem and our network partners to ensure that the RIIO-3 period delivers for consumers. Our collective efforts will be instrumental in ensuring a clean, secure, and affordable energy future.

### Our key points

#### **Electricity Transmission Delivery and Strategic Planning**

Ensuring timely delivery of critical, new Electricity Transmission (ET) infrastructure is vital to achieving the ambition of a clean power energy system by 2030 and therefore it is critical that Transmission Owners (TOs) are incentivised appropriately to play their part.

We recognise that Ofgem have made the interaction between the RIIO-3 framework and Strategic Spatial Energy Plan (SSEP) and the Centralised Strategic Network Plan (CSNP) an essential part of their policy development. Roles and responsibilities, as well as sufficient funding and appropriate incentives to support these, must be in place across the industry to enable delivery at pace, with clear hand-offs between the relevant parties.

We welcome the robust package of incentives designed to ensure the timely delivery of ET plans, including the CSNP-F ODI. The implications of late delivery are significant, and the incentives need to drive the right behaviour. Looking across the package we believe Ofgem have struck an appropriate balance in this.

We recognise the criticality of robust input from the TOs to inform the CSNP and, therefore, Ofgem's role in monitoring their performance on this. We acknowledge that Ofgem will need to obtain information and data from NESO to effectively fulfil their monitoring responsibilities. Transparency and timely data sharing from TOs to NESO is necessary for an accurate and comprehensive overview. This requirement extends beyond data needed solely for the development of CSNP. Given this, clear governance for all parties on what the reporting and monitoring will cover will be critical to ensure this drives the intended behaviour.

#### **Electricity Transmission Outage Planning – system access**

As noted in the Transmission Acceleration Action Plan, outage planning is a key enabler of the transformation of the power system. We are very keen to continue discussions with Ofgem and networks to ensure that the SO:TO incentive is effectively structured to optimise system access, driving outage plans that are optimised and delivered with minimal change, by providing value adding solutions.

#### **Regional Energy Strategic Planning**

We welcome the acknowledgement of the critical role that Regional Energy Strategic Plans (RESP) will play in supporting the timely transition away from natural gas while maintaining resilience. We will work closely with Ofgem to define appropriate timing for Gas Distribution Networks (GDNs) to align with RESP.

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There will be an ongoing need for GDNs to engage with NESO in the development of RESPs and we welcome that all network plans have referenced the importance of this engagement.

We note that some funding has been disallowed within the DDs as Ofgem considers it to be duplicative of NESO RESP activities. GDN business cases did not set out explicitly in detail their forecasted costs of engaging with RESP, so it is difficult to say whether this has been included within the funding that has been disallowed, or if networks have incorporated this into forecasts elsewhere. We recognise the need to avoid duplication whilst noting the key role GDNs have to play in engaging and working with the RESP team, eg in the provision of gas network analysis and data to support RESP Strategic Investment need.

It is important that GDNs are appropriately resourced to enable them to actively support the development of RESPs with delivery of these types of critical inputs into the strategic planning NESO is responsible for to deliver net zero.

## Green Gases

We support a proposal to introduce a scheme to facilitate biomethane connections to gas networks. The mechanics of any proposed price control mechanism/financial instrument to support the uptake of biomethane should be coherent with government's plans for any successor to the Green Gas Support Scheme (GGSS).

The strategic energy plans produced by NESO will be whole energy system and will consider interactions between hydrogen and other energy vectors. It will be critical that specific projects that can help to realise these energy plans have timely access to the necessary funding to deliver the whole energy system benefits identified. For projects developed by NGT or GDNs, NESO does not have a view on the relative merits of funding via the RIIO-3 framework versus other channels such as the Hydrogen Transport Business Model (HTBM). It is important to recognise that the hydrogen network development landscape extends beyond NGT and GDNs; third parties will require access to equivalent funding.

## Affordability

We agree with Ofgem's strategic choice to invest now to avoid higher costs later. However, we recognise the importance of making sure that energy costs are as low as possible, and we welcome Ofgem's consultation on Energy Cost Allocation and Recovery review.

We welcome Ofgem's package of incentives to focus networks on delivering their plans on time, supporting the connection of renewable generations, innovation to reduce bills, and strengthening arrangements to minimise environmental impacts for both electricity and gas infrastructure.

We recognise the balance to be struck in ensuring the transition away from natural gas is fair and at the lowest possible cost. It is important that further consideration is given to how gas network investment costs can best be recovered and over what time frame to support a just transition for consumers today and in the future.

## **Public Resilience**

We welcome the introduction of a cross-sector resilience reopener for RIIO-3. Recent events such as the outage at North Hyde substation and the loss of power across the Iberian Peninsula highlight the need for mechanisms to be in place to incentivise resilience.

NESO are working with DESNZ and Ofgem to implement the recommendations from the North Hyde Incident and welcome the focus and opportunity that this resilience reopener presents to enable timely action. It is vital that networks are able to appropriately respond to evolving risks and resilience requirements.

We have some concerns that the materiality thresholds could present a risk where networks need to invest in people capability to take appropriate action. Consideration should be given in the design of the reopener to ensure it is not a blocker to network owners increasing resilience capability in their organisations.

## **Innovation**

We are supportive of the decision to retain and expand the Strategic Innovation Fund, improve benefits tracking and to introduce an innovation deployment fund.

While these improvements are welcome, it's essential that they remain balanced and don't impose unnecessary regulatory burdens. We need to foster innovation while maintaining an efficient regulatory environment.

We'll continue to collaborate closely with Ofgem and UKRI to ensure NESO's role in the innovation ecosystem is well-defined. Moreover, we agree that reviewing the roles and responsibilities in energy innovation funding is vital and believe this review should be led by the government.

## **Competition**

Whilst there are no direct questions on the impact of the RIIO-3 DD on network competition, as the delivery body for onshore competition we think it is important to recognise that the Competitively Appointed Transmission Owner (CATO) regime will take shape in this price control period.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response please contact Laura Thomson, Regulatory Policy Manager, at [laura.thomson@neso.energy](mailto:laura.thomson@neso.energy).

Yours sincerely

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## Appendix 1 Consultation Question Responses

### Overview Questions

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

NESO agrees that it is important for the industry to have a greater awareness of and resilience to longer term climate change issues. We are in discussion with both Ofgem and DESNZ with regard to a standardised set of climate change scenarios which the industry can plan against.

#### **OVQ9: Do you agree with our views on the Workforce Resilience Strategies?**

We also note the risk in this space so welcome the specific call outs.

#### **OVQ10: Do you agree with our views on the Supply Chain Resilience Strategies?**

We also note the risk in this space so welcome the specific call outs.

### Innovation Questions

#### **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?**

We understand there is a need for increased start up and scale up support to access energy innovation funding. However, much of this service is already being provided by existing publicly funded organisations.

Rather than creating a new standalone service, it would be more beneficial to focus on streamlining, simplifying, and promoting the existing routes to make them more effective.

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

We support improving measuring the benefits of innovation projects though updating the Innovation Measurement Framework. Any new regulatory reporting requirements should be proportionate as the current reporting frameworks are already significant.

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

We agree with these proposals.

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

NESO supports the need for long-term, outcome-based innovation and the progression to a whole system approach is vital for the successful creation, deployment and realisation of benefits of new and transformative network innovation projects. We welcome the transparency and

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collaborative nature in which Ofgem and UKRI have engaged on the development of the approach. We will continue to work closely with Ofgem and UKRI to ensure NESO plays the right role in the innovation ecosystem.

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

We agree with this proposal.

### **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?**

We do not agree with the proposal to fund non-NIA, NIC or SIF deployment through the SIF deployment fund. Whilst we understand the potential, efforts should be directed at the funds within Ofgem's current scope to maximise their impact and effectiveness.

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

We support these proposals. An updated contribution system should be a structured and consistent framework that allows for decision making at the outset of potential innovation projects. Any uncertainty of contribution rates could hinder innovation participation, unduly impacting smaller organisations who cannot accept potential higher financial risks.

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

Whilst we understand the challenge the pathway seeks to address, we do not support the proposal. We do not think Ofgem is best placed to take on a new role in innovation project proposal triage. We believe this should be included in Innovate UK's role in generating and sharing ideas for the SIF fund and other established ideation routes. There would be too high an inherent risk to deployment of projects brought forward in this fashion and additional project selection routes are likely to confuse innovators on where to submit their ideas.

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

We agree with the need for assessment, clarification and alignment of roles and responsibilities in the energy innovation ecosystem. We believe this should be led by government. This allows for Ofgem, UKRI and NESO to also be fairly included and assessed.

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

We welcome simplification of the SIF reporting process. We would like to understand detail on timescales, requirements and implications when they are available in the SIF Governance Document Consultation.

## **Data and Digitalisation Questions**

### **OVQ37: Do you agree with our proposed approach to the DSI licence condition?**

We agree with the proposed approach. The new licence condition should require networks to go beyond merely deploying a node and using the trust framework; they must act as active participants rather than passive users. Additionally, the terms 'Trust Framework' and 'Data Preparation Node' should not be formally defined as Ofgem proposes until after NESO completes the Minimal Viable Product build of the Data Sharing Infrastructure in case of change and to avoid any confusion.

### **OVQ38: Do you agree with our proposed design of the Digitalisation re-opener?**

We agree with the need for a digitalisation reopener to account for additional investment requirements that emerge within period relating to technological or policy changes and developments that contribute to further digitalisation of the energy sector. Whilst we recognise Ofgem's drive to ensure efficiency in reviewing applications across networks, we consider that a single reopener trigger in July 2028 could be too rigid to accommodate the flexibility needed for investments within period. A more flexible approach would be better suited given the pace of digital changes required to support achieving Clean Power 2030.

## **ET Annex Questions**

### **ETQ2: Do you agree with our proposed approaches to determining a TDD for CSNP-F Outputs and non-CSNP-F Outputs?**

It will be critical to establish a reasonable target delivery date for individual projects to avoid the incentive being too stretching or not stretching enough and we look forward to working with Ofgem and the TOs on how this should be defined.

### **ETQ6: Which of the two proposals for the Connections Capacity ODI-F target setting methodology do you think is most appropriate and why?**

We agree with Ofgem that the first and preferred option, directly linked to the delivery of projects for CP2030 is easier to implement and more appropriate. The second option, focused more generally on the delivery of MW capacity per year would be more difficult to baseline. However, more detail is needed on the design of the ODI-F to identify how the preferred option would work in practice and what the scope is. For example:

- whether it covers all generation and demand projects needed for 2030 or only some;



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- what incentives would apply to delivery of projects that are needed by 2035 (noting that almost half of the reformed connections queue may include post 2030 projects); and
- how delivery is tracked and how delivery incentives integrate with Ofgem's ongoing end-to-end connections review.

### **ETQ7: Do you have any further considerations on our chosen direction for a RIIOET3 Connections Capacity ODI-F, including detail on how the targets could be built up?**

We welcome the shift in the TO incentives away from the previous focus on their role in delivery of the connections process (e.g. time to issue offers), to the wider outcomes associated with connection offers. Overall, the revised connections incentives and drivers are well aligned with NESO's Connections Reform activity and with CP2030. The cost incentives are still based on volume drivers, which seems sensible given the broad range of reinforcements and other works associated with connections. We think that it is also sensible to retain a reputational incentive on TOs around delivery of the connection process, i.e. feedback from customers on their performance in issuing offers. Given the extent of the commercial and regulatory frameworks in place for the connections process, we agree that it would be more appropriate for that incentive to be reputational rather than financial.

More broadly, we consider that there would be merit in reviewing the effectiveness of the relationship within Connection Agreements between TO (delivery of physical connection assets) and NESO (right and obligations for using the system) elements, given their very different purposes. We intend to engage on this with Ofgem as part of Ofgem's ongoing end to end review of connections.

### **ETQ10: Do you have any views on whether the Innovative Delivery Incentive and/or SO:TO ODI-F should be used to incentivise TO action regarding transmission losses?**

We support the aim of reducing Transmission losses but do not feel that the SO:TO ODI-F is the right vehicle to do so, as it is designed to focus and deliver a reduction in constraint costs, not overall operational costs.

Any mechanism to reduce Transmission losses needs to consider the system holistically and should not directly or indirectly result in the increase of other operational cost, such as those associated with voltage or constraint management.

### **ETQ16: What are your views on our consultation position for the SO:TO incentive approach to BAU enhanced services in ET3?**

NESO agrees that there should be a mechanism in place to assess when an enhanced service has transitioned into a BAU activity. We support the introduction of the Decision Tree although NESO will need the TOs to confirm whether the enhanced service meets the criteria as defined under 'Asset enhancement' or 'Pushing operational boundaries.' We also agree that enhanced service cannot roll on as an evergreen service, year after year and that limiting an enhanced service to a single business plan period is reasonable. There should also be an explicit



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expectation that a TO would not revoke an enhanced service once the business plan period ended, just because the SO:TO ODI-F incentive was no longer available.

NESO would like further discussion and guidance around what would be considered 'above and beyond the TOs licence obligations' as described in the Decision Tree.

### **ETQ17: Do you agree with our proposal to introduce a clawback mechanism in the SO:TO ODI-F for enhanced services requested that are unfulfilled?**

Whilst it is rare for the TOs to decline a request for an enhanced service, NESO would like to work further with Ofgem and the TOs on designing a clawback mechanism.

### **ETQ18: Which of the three options for managing differing approaches between TOs do you think would work most effectively in the SO:TO ODI-F?**

We support plans to reward TOs that take a whole system approach and proactively plan for enhanced services in their business plans. We agree that learnings across the 3 TOs should be shared, and the most beneficial technology utilised to maximise benefit for the end consumer in lowering constraint costs. It seems appropriate to have consistency across the TOs and to award the most beneficial technology.

We are supportive of both Options 1 and 2. Option 3 has benefit, but it could be very complex to rank enhancements in order of benefit. Governance would be needed around the methodology used to rank the benefits and a third party may be needed to adjudicate the decisions. Consideration also needs to be given to the cost to deliver the solution versus the benefit; some enhancements, although giving a smaller benefit could be a lot cheaper and quicker to deliver. Some technologies may also not be suitable for all locations across the 3 TOs network due to the differing design and type of equipment and site topography.

More generally on the SO:TO incentive, we are keen to continue discussions with Ofgem and networks to ensure that the SO:TO incentive is effectively structured to optimise system access, driving outage plans that are optimised and delivered with minimal change, by providing value adding solutions. We also note that there is no mechanism to address issues where TOs delay or change outage plans resulting in more widespread impacts and we would welcome discussions with Ofgem on how such a penalty mechanism could be developed.

### **ETQ19: Do you agree with the need to introduce an Innovative Delivery Incentive to drive the five behaviours that we've identified and do you consider that there are any behaviours that are missing?**

We agree that there is a need to introduce an Innovative Delivery Incentive. It encourages creativity at a time-critical period and provides a material financial reward for behaviours and actions which go beyond minimum compliant delivery standards to actively seek out more cost-effective solutions and new ways of doing things to drive benefit for consumers. We welcome the inclusion of behaviours such as collaboration, as this enables the sharing of new methods and

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solutions to ensure that consumer benefits are shared and realised across the system in its entirety. It ensures that solutions that deliver become embedded as business as usual. Collaboration ensures collective action to solve the challenges of CP2030 and beyond.

We note the proposal for a role for NESO in the performance assessment panel for the Innovative Delivery Incentive and we welcome further engagement from Ofgem on the details of how this would be established, what the roles and responsibilities would be set out as, and any guidance around how this would work in practice.

### **ETQ22: Do you agree with our proposal to introduce the CSNP Co-ordination LO?**

As transmission network delivery is critical across this period, transparency and timely provision of data from Transmission Owners (TOs) to NESO is vital to ensure a single view of the progress and status of delivery across a broader lens than data required for the development of CSNP. Given this, clear governance for all parties on what the reporting and monitoring will cover will be critical to ensure this drives the intended behaviour. We recognise the criticality of robust input from the ET networks to inform the CSNP and, therefore, Ofgem's role in monitoring their performance on this. We recognise in undertaking their monitoring role Ofgem will require information and data from NESO.

## **GT Annex Questions**

### **GTQ1: Do you agree with the proposed licence obligation for National Gas to collaborate with NESO and to seek stakeholder feedback in the area of gas strategic planning?**

We agree with the proposal to introduce a licence obligation on collaboration with NESO. Along with NGT we are responsible for three key deliverables across the gas planning cycle, with NESO delivering the 1st and 3rd of those and NGT responsible for the 2nd. We support a licence condition to ensure continued proactive engagement with NESO in relation to the gas network planning cycle, which we think would work effectively if limited as part of the gas network planning cycle as it appears in the recent RIIO-3 licence consultation document.<sup>1</sup>

### **GTQ15. Do you agree with the introduction of the proposed UIOLI mechanism for biomethane, including with the proposed scope and capex cost caps?**

We support a proposal to introduce a scheme to facilitate biomethane connections to gas networks. The mechanics of any proposed price control mechanism/financial instrument to support the uptake of biomethane should be coherent with government's plans for any successor to the Green Gas Support Scheme (GGSS).

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<sup>1</sup> [RIIO-3 initial licence consultation](#) | Ofgem

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### **GTQ28. Do you agree with the proposed expanded scope of the Authority-triggered Gas Strategic Planning Re-opener?**

We support the expanded scope of the Gas Strategic Planning reopener. We can recognise the range of potential uncertainties at play within the period which might require additional investment to be brought forward, subject to robust capability assessment. The opportunity to enable timely response from a wide range of triggers as per the expanded scope should be enabled. We recognise the important role NESO will play in supporting assessment of any such investments that may be proposed.

### **GTQ54: Do you agree with our engineering assessment of NGT's RIIO-GT3 Business Plan?**

We were asked by Ofgem to provide independent advice on specific elements of NGT's business plan under section 171(1) of the Energy Act 2023. We provided advice<sup>2</sup> on the alignment of NGT's business plan with the long-term energy system needs of GB's energy transition. This highlighted that the initial network capability analysis we had undertaken required an additional £38m for investment as NGT had overestimated the initial investment options capability. Ofgem agreed with our initial views on NTS reinforcement for Wales and what we recommended as the preferred investment option at the time.

## **GD Annex Questions**

### **GDQ4: Do you agree with our proposal to enable the GDNs to submit RESP coordination and engagement activities through NZARD and NZASP?**

There will be an ongoing need for GDNs to engage with NESO in the development of RESPs and we welcome that all network plans have referenced the importance of this engagement.

We note that some funding has been disallowed within the Draft Determinations as Ofgem considers it to be duplicative of NESO RESP activities. GDN business cases did not set out explicitly in detail their forecasted costs of engaging with RESP, so it is difficult to say whether this has been included within the funding that has been disallowed, or if networks have incorporated this into forecasts elsewhere. We recognise the need to avoid duplication whilst noting the key role GDNs have to play in engaging and supporting the RESP team, eg in the provision of gas network analysis and data to support RESP Strategic Investment need.

It is important that GDNs are appropriately resourced to enable them to actively support the development of RESPs with delivery of these types of critical inputs into the strategic planning NESO is responsible for to deliver net zero

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<sup>2</sup> [NESO Advice to Ofgem on NGT Business Plan](#)

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### **GDQ20. Do you agree with the introduction of the proposed Biomethane Connections UIOLI, including with the proposed scope and funding caps?**

We support a proposal to introduce a scheme to facilitate biomethane connections to gas networks. The mechanics of any proposed price control mechanism/financial instrument to support the uptake of biomethane should be coherent with government's plans for any successor to the Green Gas Support Scheme (GGSS).

## **Finance Annex Questions**

### **FQ24: What are your views on our proposal to accelerate depreciation for new assets only in GD and is there any further evidence you would like us to consider before we reach a final decision?**

### **FQ25. Do you agree with our proposal to maintain the existing depreciation policy for gas transmission assets?**

We recognise Ofgem's proposal seeks to strike a balance in ensuring the transition away from natural gas is fair and at the lowest possible cost. Looking beyond this proposal, it is important that further consideration is given at pace to how gas network investment costs can best be recovered and over what time frame to support a just transition for consumers today and in the future. We look forward to working with Ofgem and government to support this further consideration.