Scottish & Southern Electricity Networks

TRANSMISSION

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Dear Colleagues,

SSEN Transmission is progressing a certain, credible, ambitious, and delivery-ready plan to meet Clean Power 2030 (CP2030) and support Connections Reform. The pathway to a clean power system is clear, and Ofgem must play its part in supporting this by setting an appropriate regulatory and financial framework and providing Transmission Owners with the funding required to deliver. With low and zero carbon generation in the North of Scotland forecast to deliver around one fifth of UK clean power by 2030, our infrastructure is critical to enabling this transition.

We are already delivering at risk - securing supply chains, advancing planning consents, and preparing for major network expansion from 2026 to 2031 in advance of securing allowances. This includes new 400kV overhead lines, HVDC subsea cables, and significant investment in maintaining and operating our growing network. Our plan will:

- Connect an additional 26GW of generation during RIIO-T3, a 74.6% increase.
- Generate £15bn in economic growth, 37,000 jobs, and £400m in community benefits.
- Triple our Regulated Asset Value from £9bn to £29bn.

Our Plan is not only certain, but it is an ambitious one. We enter RIIO-T3 as a high-performing TO with a proven track record. We lead the sector in incentive performance; best-in-class in the IIG, QoS, and stakeholder engagement incentives.

Our operational and delivery excellence is reflected in our ENS incentive achievement, in international benchmarking (ITOMs) where we are upper quartile and the leading European TO, and in the successful energisation of the Shetland HVDC link. We were the first to commit to delivering 10% Biodiversity Net Gain (BNG), the first to commit to a science-based target and the first to secure our ASTI supply chain.

We now build on that foundation with a UK-first approach to legacy. Our RIIO-T3 Plan commits to leaving a lasting, positive impact on communities, nature, and the economy. And we are delivering on that now. This includes a pioneering housing strategy to support workforce accommodation at a lower cost than traditional temporary accommodation, a Community Benefit Fund that we implemented early, as we operate at pace, and a sustainability strategy that embeds nature restoration, climate resilience, and social value into every project. We are setting a new standard for what it means to deliver a just energy transition.

Despite our significant disappointment that this was not reflected in the Business Plan Incentive (BPI), we are clearly continuing to play our part. But to maintain momentum and deliver at pace, Ofgem's Draft Determination must go further.

Ofgem's Sector Specific Methodology Decision (SSMD) made it clear that RIIO-T3 must attract significant investment at pace, avoid delays, support affected communities, and enable effective supply chain engagement to deliver value for consumers. Yet the Draft Determination fall short - particularly on equity returns, incentives, and cost assessment.

The Final Determination can be considered successful if it delivers four essential outcomes:

1. An appropriate and investable financial framework

- **An Investable framework:** To meet investor expectations of a 9–10% nominal return, Ofgem must raise the baseline Cost of Equity (CoE) to at least 6.5% (CPIH-real). A dividend yield of at least 5% is also required to maintain investor confidence and support equity injections. These adjustments are essential to maintain the UK energy sector's competitiveness in the global infrastructure investment landscape.
- **Strengthened cash flow measures:** This includes aggregated capitalisation rates of no more than 80% and asset lives of 35 years for new assets. [redacted]

  The profile of earnings vs asset growth and the need to reduce the equity financing burden underpins the need for further cash flow adjustments.

2. A meaningful incentive framework:

- **Credible Incentives:** Ofgem must deliver a credible outperformance opportunity on top of the baseline return on equity. This should be at least 100-200bps with a credible outcome of achieving 9-10% nominal equity return. The current incentives lack clarity, objectivity, scale, and material upside potential. A more robust incentive package is needed to provide a credible opportunity for well-performing networks, otherwise the baseline return will need to be increased accordingly to reach 9-10% nominal returns.
- **Business Plan Incentive (BPI):** Ofgem applied the BPI incorrectly to overheads and used unreliable models for comparisons. Ofgem must standardise how it assesses indirect costs before introducing penalties or rewards.

3. A fully funded plan:

- **Ofgem must address funding shortfalls and ensure that indirect resources are properly aligned with CP2030 and net zero objectives**. Current underfunding in Business Support Costs (£289m) and Closely Associated Indirects (£344m) needs urgent correction to support these goals. Relying on proposed use-it-or-lose-it allowances to bridge this gap is not viable. Their purpose remains unclear, and they lack the certainty and structure needed to support continued investment in strategic resources to maintain delivery at pace.
- **Benchmarking methods should reflect the scale of growth to 2031 with less emphasis on historic trends**. Ofgem should revise its cost assessment models and their application to account for company-specific circumstances and unprecedented growth. Efficiency models should capture the efficiency of total investment programmes across the price control period.

4. Rapid regulatory decision making

- **To avoid missing Clean Power Action Plan and Net Zero targets,** Ofgem should streamline and **automate approvals** for all CP2030 aligned schemes, focusing on connections with a Gate 2 to the Whole Queue Offer and the associated enabling works. We cannot wait for regulatory approvals.
- **Release of Funding**. Ofgem should move away from reopeners and automate funding to match actual project demands, funding for preconstruction, and early enabling works should be released in full and any discrepancies considered at close out.

This document outlines our primary concerns regarding Ofgem's Draft Determination positions. Our detailed responses to the specific questions posed in Ofgem's Draft Determination are consolidated within our Draft Determination Question Response Documents.

We need a genuinely investable framework with higher equity returns, stronger incentives, and improved cash flow measures, recognition of our plan's certainty and alignment with CP2030, with appropriate overhead funding for the work already in motion.

We look forward to continued engagement on the matters raised in our response.

Yours faithfully,

Michael Ferguson
Director of Regulation & Strategy, SSEN Transmission