Decision

RIIO-3 Final 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 Ofgem. We assessed these plans and published our Draft Determinations for consultation on 1 July 2025. Following consideration of consultation responses, this document and others published alongside it set out our Final Determinations for the RIIO-3 price controls.

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Contents

1. Introduction

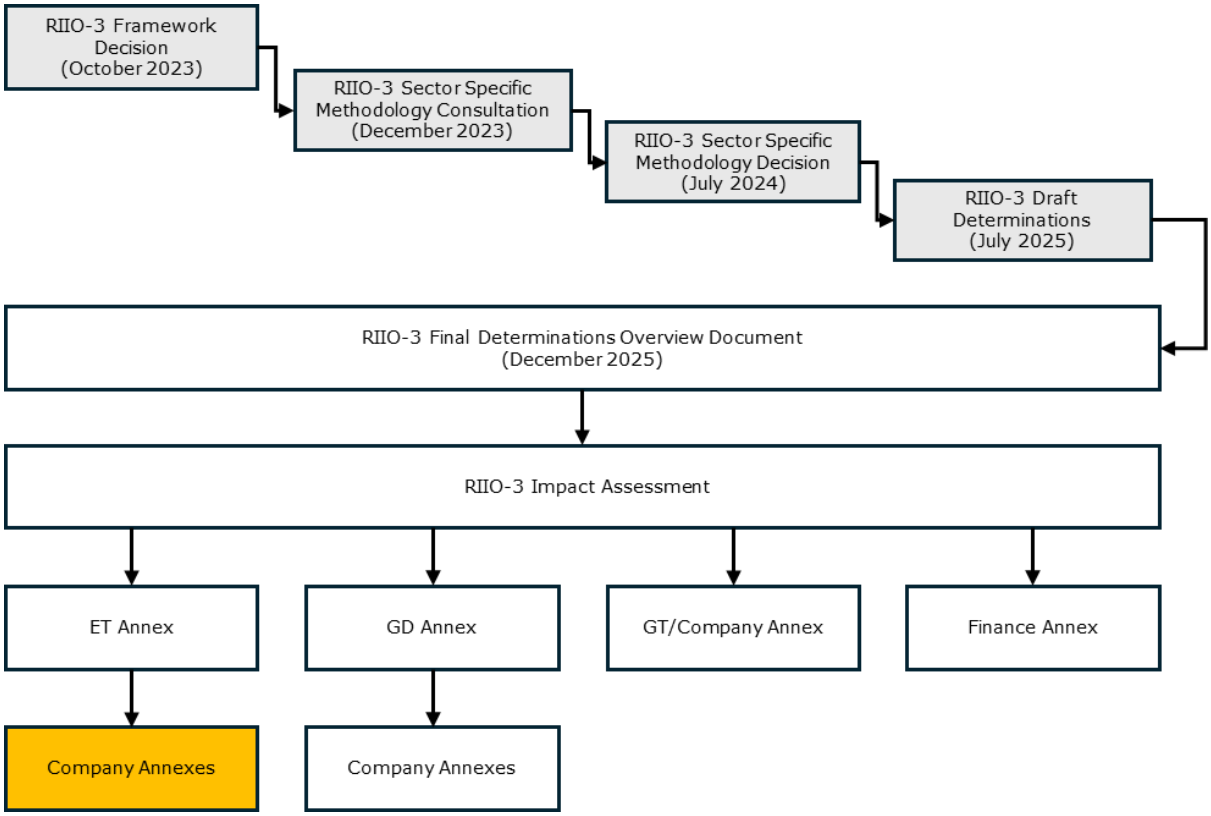
Purpose of this document

1.1 This document sets out our Final Determination 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.

Navigating the RIIO-3 Final Determinations documents

1.2 The RIIO-3 Final 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 annexes and, where relevant, technical annexes. This document is the SHET Annex. Figure 1 below maps all documents relevant to our suite of RIIO-3 Final Determinations, including the framework and methodology documents that have preceded it.

Figure 1: RIIO-3 Final Determinations map



1.3 Our Final 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 Draft Determinations. Further details on our approach to embedding the consumer voice is set out in the RIIO-3 Overview Document.

An overview of SHET's RIIO-ET3 price control

1.4 This section summarises the key aspects of SHET's RIIO-ET3 Final Determinations, setting out its cost allowances, outputs, uncertainty mechanisms (UMs), Business Plan Incentive (BPI) outcome and financing parameters.

Table 1: Allowed baseline totex (£m, 2023/24 prices)

Cost area	**SHET submitted (£m)**	**Ofgem FD (£m)**	**Difference (£m)**	**Difference (%)**
Core baseline totex	4,025.5	3,416.1	-609.4	-15.1%
Pre-construction funding (PCF)	-	293.2	-	-
Network Innovation Allowance (NIA)	25.5	24.0	-1.5	-5.9%
Pass-throughs	-	471.0	-	-
Use-It-Or-Lose-It (UIOLI) allowances	-	742.2	-	-
Volume drivers	-	431.6	-	-
Ex ante allowances	**-**	**5,378.2**	**-**	**-**

Table 2: Outputs package

Output name	**Output type**	**Sector(s)**	**Further detail**
Network Asset Risk Metric	PCD, ODI-F and ODI-R[1]	ET, GD, GT	Overview Document
Physical Security	Re-opener and PCD	ET, GT	Overview Document
NIS-R Cyber Resilience	Re-opener and PCD	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

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

Output name	Output type	Sector(s)	Further detail
Totex Incentive Mechanism (TIM)	ODI-F	ET, GD, GT	ET Annex
Reducing carbon emissions from operational transport	PCD	ET, GD	Overview Document
Accelerated Strategic Transmission Investment (ASTI)	ODI-F	ET	December 2022 Decision
Major Projects	ODI-F	ET	ET Annex
Innovative Delivery Incentive	ODI-F	ET	ET Annex
Connections	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
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
Protection Refurbishment/Replacement and Modernisation	PCD	SHET only	This document
OX36 Circuit Breaker Replacement	PCD	SHET only	This document
132kV Circuit Breakers Replacement at [REDACTED] substation	PCD	SHET only	This document
132kV Circuit Breakers Replacement at [REDACTED] substation	PCD	SHET only	This document
[REDACTED] Power Station	PCD	SHET only	This document
[REDACTED] Power Station	PCD	SHET only	This document
[REDACTED] Power Station	PCD	SHET only	This document

Output name	Output type	Sector(s)	Further detail
[REDACTED] Power Station	PCD	SHET only	This document
[REDACTED] Substation	PCD	SHET only	This document
[REDACTED] Substation Upgrade	PCD	SHET only	This document
[REDACTED] Substation Upgrade	PCD	SHET only	This document
Flood Mitigation	PCD	SHET only	This document

Table 3: UMs package

UM name	UM type	Sector(s)	Further detail
Business Rates (prescribed rates)	Pass-through	ET, GD, GT	Overview Document
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	Overview Document
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	UIOLI and PCD	ET, GD, GT	Overview Document
NIS-R Cyber Resilience	Re-opener	ET, GD, GT	Overview Document
Co-ordinated Adjustment Mechanism (CAM)	Re-opener	ET, GD, GT	Overview Document
Decarbonisation and Environmental Policy (DEP)	Re-opener	ET, GD, GT	Overview Document

UM name	UM type	Sector(s)	Further detail
Pre-Construction Funding (PCF)	Re-opener and PCD	ET	ET Annex
Load	Re-opener and PCD	ET	ET Annex
Load	UIOLI	ET	ET Annex
CSNP-F	Re-opener and PCD	ET	ET Annex
Generation Connections	Volume driver	ET	ET Annex
Closely Associated Indirects (CAI)	UIOLI	ET	ET Annex
Business Support Costs (BSC)	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
Property Costs	Re-opener	SHET only	This document
Subsea Cable	Re-opener	SHET only	This document

Table 4: BPI outcome

BPI Stage	SHET outcome (Bps RoRE)	Further detail
Stage A	Pass	Overview Document and this document
Stage B	0.4	Overview Document, ET Annex and this document
Stage C	1.4 bps	Overview Document and this document

Table 5: Financing parameters

Area	SHET outcome	Further detail
Notional Gearing	55%	Finance Annex
Cost of equity	5.70%	Finance Annex
Cost of debt (semi-nominal)	5.76%	Finance Annex
Weighted average cost of capital (semi-nominal)	5.73%	Finance Annex
Illustrative RoRE ranges (post RAMs)	2.05%-9.61%	Finance Annex

2. Outputs and incentives

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

Outputs we have decided to accept

Network Asset Risk Metric (NARM)

2.2 As in our Draft Determinations, our decisions on network companies' Baseline Network Risk Outputs (BNRO) are based on their Business Plan proposals and reflect any adjustments to asset intervention volumes to align with baseline funding allowances.

2.3 As we set out in our Draft Determination, to ensure that BNRO, Baseline Allowances and ONRO and Outturn Allowances are comparable, we require network companies to recalculate their BNRO to reflect their Final Determination volumes. More detail on this process can be found in the NARM section in the Overview Document.

2.4 We continue to use the NARM funding categories set out in the NARM Handbook, which provides the scope of the NARM Funding Adjustment and Penalty Mechanism and its interaction with other mechanisms.

2.5 Table 6 below summarises our Final Determination of the BNRO, associated Baseline Allowances inclusive of OEs and the Unit Cost of Risk. The BNRO relate only to the A1 Funding Category.

Table 6: Baseline Network Risk Outputs, Baseline Allowance and Unit Cost of Risk per NARM Risk Sub-Category

Risk Sub-Category	Risk Sub-Category	Baseline Network Risk Output (R£M)	Baseline Allowance (£m)	Unit Cost of Risk Benefit UCR (£/R£)
Circuit Breaker	CB	388.6	31.9	0.1
Overhead Line Conductor	OC	-	-	-
Overhead Line Fittings	OF	-	-	-
Overhead Line Tower	OT	838.3	182.1	0.2
Reactor	RX		-	-
Transformer	TX	53.1	135.2	-

Risk Sub-Category	Risk Sub-Category	Baseline Network Risk Output (R£M)	Baseline Allowance (£m)	Unit Cost of Risk Benefit UCR (£/R£)
Underground Cable	UC	153.8	52.9	0.3
Total		1,433.8	402.2	

2.6 Table 7 below summarises the results of our assessment of the BNRO per NARM asset category at Draft Determination and Final Determination.

Table 7: Baseline Network Risk Output (R£m) per NARM asset category

Asset Category	Draft Determination	Change from DD to FD	Final Determination
132kV Circuit Breaker	322.0	-3.2	318.8
132kV Transformer	78.5	-	78.5
132kV Reactor	0.0	-	
132kV Underground Cable	153.8	-	153.8
132kV OHL Conductor	253.8	-	253.8
132kV OHL Fittings	199.4	-	199.4
132kV OHL Tower	384.3	-	384.3
275kV Circuit Breaker	45.1	-	45.1
275kV Transformer	0.0	-	-
275kV Reactor	0.0	-	-
275kV Underground Cable	0.0	-	-
275kV OHL Conductor	0.0	-	-
275kV OHL Fittings	0.0	-	-
275kV OHL Tower	0.0	-	-
400kV Circuit Breaker	0.0	-	-
400kV Transformer	0.0	-	-
400kV Reactor	0.0	-	-

Asset Category	Draft Determination	Change from DD to FD	Final Determination
400kV Underground Cable	0.0	-	-
400kV OHL Conductor	0.0	-	-
400kV OHL Fittings	0.0	-	-
400kV OHL Tower	0.0	-	-
Total	1,437.0	-3.17	1,433.8

2.7 The change from Draft Determination to Final Determination for the 132kV Circuit Breaker asset category reflects the re-categorisation of a project from A1 to A3, which is covered by a separate circuit breaker PCDE detailed in the 'PCDs that we have decided to introduce' section below.

PCDs that we have decided 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

2.8 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.

Final Determinations decision and rationale

Summary of Final Determinations decision

2.9 To manage the uncertainty relating to delivery of some areas of SHET's Business We have decided to include the PCDs shown in Table 8.

Table 8: SHET RIIO-ET3 PCDs

PCD Name	FD modelled cost (£m)	Output(s) to be delivered	Delivery date
Protection Replacement PCDE	[REDACTED]	Replace: • 32 protection assets • 50 tele-protection assets • 5 feeder protection schemes • 15 transformer protection schemes	31 March 2031

PCD Name	FD modelled cost (£m)	Output(s) to be delivered	Delivery date
		1 busbar protection scheme	
OX36 Circuit Breaker Replacement PCDE	[REDACTED]	• Replace 5x 33kV OX36 SF6 circuit breakers and associated ancillary equipment. • [REDACTED]	31 March 2031
132kV Circuit Breakers Replacement at [REDACTED] substation PCDE	[REDACTED]	Replace 2x 132kV Alstom DT1 SF6 circuit breakers and associated ancillary equipment at the [REDACTED] substation	31 March 2031
132kV Circuit Breakers Replacement at [REDACTED] substation PCDE	[REDACTED]	Replace 1x 132kV Brush DB145 live tank circuit breaker (CB 705) and associated ancillary equipment at the [REDACTED] substation	31 March 2031
[REDACTED] Power Station PCDE	[REDACTED]	• Replace the existing 2x165MVA 275/18kV transformers and associated ancillary equipment • Replace last 275kV oil-filled underground cable (GO-Bundle-1981) between substations • Replace feeder bay at [REDACTED] Switching Station • Install all required auxiliary assets, civil structures, and equipment	31 March 2031
REDACTED] Power Station PCDE	[REDACTED]	• Replace the existing 4x132/11kV 50MVA Grid Transformers (GTs), associated switchgear, auxiliary equipment • Install 4x 132/11kV GTs and associated ancillary equipment • Install 4x 132kV circuit breakers and associated ancillary equipment • Install 8x 11kV circuit breakers and associated ancillary equipment • Install 132kV and 11kV cabling and associated ancillary equipment • Install all required auxiliary assets, civil structures, and equipment	31 March 2031

PCD Name	FD modelled cost (£m)	Output(s) to be delivered	Delivery date
		• Replace required OHL assets • Remove all redundant assets	
[REDACTED] Power Station PCDE	[REDACTED]	• Replace the existing 1x132/11kV 22.5MVA GT1 transformer with a new 30/36MVA transformer and associated ancillary equipment • Install new 11kV switchgear and associated ancillary equipment • Install required length of 11kV cables and associated ancillary equipment • Install new 132kV switchgear, including 1x 132kV circuit breaker, and associated ancillary equipment • Install required length of 132kV cables and associated ancillary equipment • Replace required OHL assets • Install all required associated auxiliary equipment	31 March 2031
[REDACTED] Power Station PCDE	[REDACTED]	• Replace the existing 1x132/11kV 22.5MVA GT1 transformer with a new 30/36MVA transformer and associated ancillary equipment • Install new 11kV switchgear and associated ancillary equipment • Install required length of 11kV cables and associated ancillary equipment • Install new 132kV switchgear, including 1x 132kV circuit breaker, and associated ancillary equipment • Install required length of 132kV cables and associated ancillary equipment • Replace required OHL assets • Install all required associated auxiliary equipment	31 March 2031
[REDACTED] Substation PCDE	[REDACTED]	Deliver an offline build of the 132/11kV transmission connection assets at a new site near to the existing [REDACTED] Substation, including: • Replace the existing 1x132/11kV 18MVA GT1 transformer with a new 36MVA transformer and associated ancillary equipment	31 March 2031

PCD Name	FD modelled cost (£m)	Output(s) to be delivered	Delivery date
		• Replace 1x 132kV circuit switcher with circuit breaker and associated equipment • Install 1x 11kV circuit breaker and associated equipment • Install 132kV and 11kV cabling to new site location and OHL • Replace protection system • Establish a new control building at the new site to house new protection and control panels, communications panels, batteries, suitable welfare and EV charging points	
[REDACTED] Substation Upgrade PCDE	[REDACTED]	• Install 2x120MVA 132/33kV transformers, associated ancillary equipment, 132kV and 33kV substation cables • Install 4x 132kV transformer circuit breakers, and associated ancillary equipment • Install 2x 33kV GT circuit breakers (owned by SSEN Transmission) • Install distribution circuit breakers for Willowdale 33kV connections (to be transferred to SHEPD post-completion) • Install other 9x 132kV circuit breakers (part of the GIS), and associated ancillary equipment • Install required length of 132kV cables to connect the GIS • Transfer the load from the existing 2 x 60MVA [REDACTED] transformers and AIS type switchgear Install new indoor 33kV GIS switchgear for [REDACTED] connections, including all required auxiliary assets, civil structures, and equipment	31 March 2031
[REDACTED] Substation Upgrade PCDE	[REDACTED]	• Decommission and remove all redundant [REDACTED] assets • Install additional 2x 120MVA 132/33kV transformers, associated ancillary equipment, 132kV and 33kV substation cables • Install 2x 33kV GT circuit breakers (owned by SSEN Transmission)	31 March 2036

PCD Name	FD modelled cost (£m)	Output(s) to be delivered	Delivery date
		• Install distribution circuit breakers for [REDACTED] 33kV connections (to be transferred to SHEPD post-completion) • Install all required auxiliary assets, civil structures, and equipment • Transfer the load from the existing 2x 60MVA [REDACTED] transformers and AIS type switchgear, to the [REDACTED] substation • Decommission and remove from site all redundant [REDACTED] assets	
[REDACTED] Substation Upgrade PCDE	[REDACTED]	• Replace 2x 45MVA transformers with 2x 120MVA transformers • Install new indoor 33kV GIS type switchgear, including 2x33kV circuit breakers • Connect the new site to the existing 132kV and 33kV network, by installing the required 33kV cables • Install all required auxiliary assets, civil structures, and equipment • Decommission and remove from site all redundant assets • Install new 132kV AIS type switchgear, including 2x 132kV circuit breakers, and associated ancillary equipment • Connect the new site to the existing 132kV and 33kV network, by installing the required 132kV cables and OHL assets • Decommission redundant OHL assets	31 March 2031
Flood Mitigation PCDE	[REDACTED]	• Flood mitigation works at 9 substations as listed in the project submission, based on the outputs of internal risk assessment and flood modelling analysis supplied by specialist consultants • Basement sealing works at 55 Substations, based on the outputs of internal risk assessment and historic records of flooding at sites	31 March 2031

PCD types

2.10 Our decision is to have evaluative PCDs in cases where the exact work delivered has potential to vary in part from the company Business Plan submission, either in cost or output. The reason for our decision to have evaluative PCDs is because

it allows for an in-depth assessment of the output delivered and whether an adjustment to allowances is necessary to protect consumers.

Output to be delivered and baseline cost allowance

2.11 The outputs decided in Table 8 have been defined using information from SHET's Business Plan, without any material alterations.

Reporting to stakeholders

2.12 We require annual reporting on PCDs in the RRPs, which will enable us to monitor the status of these PCDs, including timelines and costs.

Outputs we have decided to reject

Marine biodiversity

Final Determinations decision and rationale

2.13 We have decided not to include SHET's marine biodiversity funding request in its baseline allowance. Instead, any related costs should be included within project costs, where specific needs case for such habitat restoration activities can be demonstrated and linked to forthcoming marine biodiversity legislation. We received 23 responses that disagreed with our Draft Determination position to reject SHET's proposals, primarily citing environmental and socio-economic co-benefits. We do not dispute that such activities have benefits, however, in order to protect energy consumers we must ensure costs are fully justified.

2.14 We have not seen clear evidence linking the environmental impact of SHET's activities to the proposed costs and outputs. Although cost benchmarks were provided in response to our Draft Determinations, these were limited to only some of the costs (eg a cost of £18m for seagrass seeds was benchmarked only in regard to a comparative RIIO-ED2 decision). A list of projects likely to be impacted by new legislation was also provided, however, only a proxy of their environmental impact (eg cable length) was possible to be used as evidence.

2.15 Marine biodiversity legislation in Scotland is expected to come into effect during RIIO-ET3. Given the materiality of SHET's proposals, we consider waiting to understand the full requirements of the legislation rather than pre-emptive investment is appropriate. Where projects already require marine biodiversity funding due to planning requirements, these costs can be incurred as part of the project (as has already taken place in RIIO-ET2).

2.16 Our decision aligns with our position on terrestrial biodiversity, set out in the ET Annex, where we consider legislative requirements and project needs case to be

the determinant of justifiable expenditure. Arguments made by respondents to fund SHET's marine biodiversity activities raise similar points that were made in relation to our decision on terrestrial biodiversity (eg that our position goes against our biodiversity duty, opposes national and regional environmental targets, and does not consider appropriately the consumer value of socio-economic co-benefits of such biodiversity-related investment). Across our decision-making we are mindful of the parallel significant increase to legislatively required biodiversity funding, other compensatory costs associated with new infrastructure build such as new community benefit funding, as well as increased wider business plan costs.

2.17 We firmly believe that, as with terrestrial biodiversity, our decision does not prevent SHET (or any other TO) from operating in a strategic manner in regard to its habitat restoration activities.

2.18 We have also widened the scope of the Decarbonisation and Environmental Policy Re-opener (previously Net Zero Re-opener) to accommodate for the uncertainty of incoming environmental legislation if required, see the Overview Document for more detail.

Species and Habitat UIOLI

Final Determinations decision and rationale

2.19 We have decided to reject SHET's Species and Habitat UIOLI proposal. We received 23 responses that disagreed with our position, primarily citing environmental and socio-economic co-benefits. As with our position on SHET's marine biodiversity proposals, we do not dispute that the proposed activities would likely have benefits, however, in order to protect energy consumers we must ensure costs are fully justified. In this decision, we are similarly mindful of the parallel significant increase to legislatively required biodiversity funding and new community benefit funding, as well as increased wider business plan costs.

2.20 Specific arguments related to Species and Habitat Restoration UIOLI and our response to these are as follows:

- *The fund is required due to the limitations of biodiversity legislation (ie the environmental benefits are not as specific nor short-term).* Irrelevant of the output, the cost of meeting legislative biodiversity requirements is highly material. We believe focus on ensuring that these actions deliver optimal environmental outcomes whilst being cost effective is the most appropriate focus for TOs.

- *The fund would aid operation in areas where stakeholder scrutiny is high and specific actions are needed to progress projects.* If there are exceptional environmental circumstances that pose risk to project development then remedy can be considered as part of the project assessment process – we do not consider a specific fund for this possibility necessary.
- *The fund would have broad positive impact for local communities impacted by the energy transition.* We believe new community benefit funding legislative requirement to compensate communities impacted by the energy transition addresses this concern and duplication of funding is not required. See the ET Annex for further details.
- *There is a lack of adequate funding elsewhere available for such activities.* We do not consider it appropriate for energy consumers to fund activities that unrelated to energy infrastructure, and its mitigation.
- *Rejecting SHET's proposal is to discourage innovation and leadership*. We believe SHET is still able to show leadership in habitat restoration without this fund through the delivery of other funded activities.

2.21 Many respondents grouped response to this policy with other habitat restoration activities (ie biodiversity requirements). As such, please see the ET Annex for remaining overlapping discussion.

3. Business Plan Incentive (BPI)

3.1 This chapter sets out SHET's Final Determinations BPI results, including some of the key points raised by stakeholders, and our responses to these points. Where the results have changed from that published in the Draft Determinations, we have set out our reasoning for this change. For information on the overall results for the BPI for all companies, see the Overview Document.

Table 9: Final Determinations BPI results

BPI Stage	Draft Determinations result	Final Determinations result	Further detail
A	Pass	Pass	This chapter for specific views on the Final Determination result.
B	-2.6 bps	0.4 bps	This chapter for specific views on the Final Determination result.
C	1.4 bps	2.7 bps	This chapter for specific views on the Final Determination result.
Total bps	-1.2 bps	3.1 bps	
Total 5-year monetary equivalent, £m	-2	5.8	

Stage A

3.2 Through the consultation we received no information to alter our position and therefore we have decided to implement our Draft Determinations position that SHET met all the minimum requirements, as set out in the Business Plan Guidance, and has passed Stage A of the BPI.

Stage B

3.3 The overall Final Determinations result for SHET is 0.4 bps, which corresponds to the weighted average of the outcomes from comparative (0.0 bps) and bespoke (0.4 bps) assessment, rounded to one decimal point. The following provides details on the Final Determinations result for each cost category including the rationale for change from the Draft Determinations results.

Comparatively assessed costs

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

Table 10: Final Determination BPI scoring for comparatively assessed costs by network

Comparatively assessed cost category	Weighting	Efficiency benchmark	Efficiency Score	BPI reward/penalty (bps)
Insurance - onshore	2.0%	1.1	1.1	0.0
Total	2.0%	1.1	1.1	0.0

Final Determinations Rationale and Draft Determinations responses

3.5 In our Draft Determinations, Closely Associated Indirects (CAI), Business Support Costs (BSC) and Insurance offshore costs categories were assessed on a comparative basis, for our Final Determinations they are now assessed as bespoke costs. We received one response on the stage B assessment results for SHET, and this was from SHET. In its response, SHET did not agree with the outcome of the comparative assessment at our Draft Determinations. It argued the assessment was based on inconsistent data submissions and a flawed modelling approach indicated by the wide range of efficiency scores. We note SHETs concerns regarding the comparative assessment for indirects at Draft Determinations. The indirects modelling approach has been updated to place greater weight on the TO-specific analyses which recognises the varying growth and indirect cost requirements for RIIO-ET3, as outlined in Chapter 5 of the ET Annex. To be consistent with the approach to setting allowances, we have removed the comparative assessment of CAI, BSC and Insurance of offshore assets and these will be assessed on their own merit under a bespoke assessment.

Bespoke costs

3.6 The table below sets out bespoke costs assessed along with the Final Determinations rationale and the Draft Determinations responses.

Table 11: Final Determinations BPI scoring for bespoke cost activities

Bespoke Cost	Weighting	BPI reward/ penalty (bps)
Closely Associated Indirects: Operational Training	1.5%	0.1
Network Operating Costs	6.8%	0.0
Non-operational Capex	2.1%	0.0
Business Support: IT & Telecoms	9.1%	-1.8
Non-operational Capex: IT & Telecoms	5.0%	-1.0

Bespoke Cost	Weighting	BPI reward/ penalty (bps)
Network Operating Costs: Operational Technology	3.2%	0.0
Non-Load Related Capex: Replacement	33.3%	0.0
Non-Load Related Capex: Refurb Major	0.1%	0.0
Non-Load Related Capex: Refurb Minor	1.8%	-0.1
Non-Load Related Capex: Other	1.3%	0.3
Non-Load Related Capex: Spares	1.1%	0.1
Other costs: Cyber Security	4.2%	0.0
Non-operational Capex: Data & Digitalisation	4.0%	0.8
Business Support: Data & Digitalisation	1.6%	0.3
Insurance - offshore: Business Support Costs	1.4%	0.3
Closely Associated Indirects	13.1%	0.9
Business Support Costs	8.2%	0.6
Total	97.7%	0.4

Final Determinations Rationale and Draft Determinations responses

3.7 We have amended the bespoke assessment and added three cost categories; CAI, BSC and Insurance costs related to offshore. The CAI and BSC Stage B assessment was comparative at our Draft Determinations. However, the baseline modelling approach has been amended and places a higher weighting on the TO-specific analyses, therefore we consider it appropriate to assess these costs based on their own merit. Following feedback to our Draft Determinations on the cost assessment of Insurance costs, we have agreed that onshore and offshore Insurance costs differ and should be treated differently and we conducted a qualitative review of offshore insurance costs. For Insurance onshore, SHET has received a reward against all three bespoke assessment criteria as costs have been allowed in full. For CAI and BSC, SHET was rewarded on the justification of efficient volumes criteria as no costs were disallowed based on volumes and supporting evidence was provided to justify the level of headcount growth. We found the quality of cost evidence and justification of efficient unit costs to be adequate as evidence of benchmarking was provided at a high level, based on indirect costs as a percentage of regulatory asset value (RAV) over time.

3.8 In its response, SHET argued the bespoke assessment is flawed and lacks objectivity, where it is unclear what the 'in the round' assessment entails. It added there could be blurred boundaries between Stage B 'poorly justified'

penalties and poorly justified commitments which fall under the Stage C assessment and could lead to double counting of penalties. We acknowledge SHET's concern around subjectivity and duplicating penalties across BPI stages. We consulted on the BPI approach in our Sector Specific Methodology Consultation (SSMC) and in SHET's response it supported the move to a limited 'in the round' assessment, backed by econometric modelling and consideration of procurement and commercial strategies. It added the RIIO-ET2 approach of assigning costs into higher/lower confidence based on historic data would be problematic for RIIO-ET3 due to supply chain volatility and the bespoke nature of transmission projects.

3.9 Many respondents, including SHET, expressed the need for objectivity, clarity and transparency in any assessment and a request for methodologies to be shared well in advance of business plan submissions. We clearly set out the scoring criteria in the Sector Specific Methodology Decision (SSMD) and Business Plan Guidance (BPG) ahead of Business Plan submissions. We noted there should be no duplication of the same incentive across different stages of the BPI. Although specific elements of a business plan may be relevant to multiple stages, this will be assessed under different criteria for distinct incentives. We also carried out checks across network companies and sectors to ensure consistency in the approach to bespoke assessment.

3.10 SHET argued the bespoke assessment of IT & Telecoms was flawed as it relied on an arbitrary Red-Amber-Green (RAG) methodology which uses a set percentage for allowable expenditure that lacks justification and links ongoing IT costs with capex spend which is incorrect. As described in Chapter 5 of the ET Annex, we consider our methodology proportionate.

3.11 SHET viewed the inclusion of atypical projects into the assessment for non-load related capex for replacements and refurb minor costs as unreasonable due to the nature of these projects being unsuitable for any general assessment of asset category costs or industry comparison. Although we have considered a more qualitative assessment for some of SHET's non-load plan where engineering review supported the justification, we disagree with the concerns of comparative assessment. This is because our assessment has been carried out on a bespoke basis, considering the benchmarks in their application to the costs in question in combination with qualitative assessment, which considers the underlying engineering rationale for these costs.

3.12 There were no changes to scores against the criteria compared with our assessment in our Draft Determinations. The variation in overall scores is due to adjustments to the cost weights resulting primarily from changes to exclusions.

Stage C

3.13 The below section sets out the Final Determinations result and rationale for the Clarity and Business Plan Commitments assessments for Stage C of the BPI.

Clarity

Final Determinations assessment result: 1.4 bps

3.14 Through the consultation we received no information to alter our position and therefore we have decided to implement our Draft Determinations position that SHET scored 1.4 bps for the BPI Stage C Clarity assessment. The rationale for this result is set out in our Draft Determinations - SHET Annex.

Business Plan Commitments

Final Determinations overall assessment result: 1.3 bps

Outcome: Infrastructure fit for a low-cost energy transition

Final Determinations assessment result: 0 bps

3.15 In our Draft Determinations, we penalised all TOs for the 'infrastructure fit for a low-cost energy transition' commitment outcome.

3.16 In their responses to our Draft Determinations, all TOs raised the high level of uncertainty going into RIIO-ET3. In particular, SHET questioned our decision to mark it down over what we deemed to be its over-reliance on uncertainty mechanisms. We accept that the unpredictability of RIIO-ET3 naturally led TOs to producing plans with a lesser dependency on upfront baseline projects.

3.17 Therefore, we have decided that all TOs be assigned an 'acceptable', and therefore financially neutral, score against this outcome.

Outcome: Secure and resilient supplies

Final Determinations assessment result: 1.3 bps

3.18 At Draft Determinations, SHET was rated as 'acceptable' under all criteria in this outcome apart from the stretching performance criterion, which was rated as 'outstanding', leading to a reward in this area.

3.19 SHET disagreed with our determination, focussing on its historic reliability performance and the headline 2030 goal of having zero interruptions, using ENS as a measure of reliability.

3.20 While these reliability commitments have been rewarded, we still have concerns that have limited the ability to be rewarded further. We see a disconnect between this target of 0MWh of ENS for this commitment but suggesting no change from RIIO-ET2 to its annual target of 105MWh for the sake of the ENS incentive.

3.21 As such, we maintain our position at Draft Determinations which produced a reward for secure and resilient supplies commitments

Outcome: High quality of service from regulated firms

Final Determinations *assessment result: 0 bps*

3.22 At Draft Determinations, SHET was rated as 'acceptable' under all criteria.

3.23 SHET disagreed with our determination which created an 'acceptable' and therefore financially neutral position. It pointed to the difficulty in reaching and maintaining the AA1000 Stakeholder Engagement Standard through annual targets and progressively more challenging objectives.

3.24 While we note SHET's position, it is not unique within the TOs or wider network companies, hence we consider an 'acceptable' rating to be proportionate.

3.25 As such, we maintain our position at Draft Determinations which produced an 'acceptable' rating for high quality of service from regulated firms' commitments.

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.

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.

Final Determinations summary

4.2 SHET's property portfolio was fully justified at Draft Determinations and no further details were provided in consultation responses. SHET noted however that several additional projects were early in their development cycle and so requested a re-opener to accommodate additional funding requests during the Price Control. We agreed to this.

4.3 We have decided to provide baseline funding for the development works of a number of property investments and a property re-openers to provide construction funding as required. We are satisfied that SHET has evidenced how this will support immediate and necessary works in the near term. Therefore, we consider they should be funded prior to the re-opener window.

Design	Final Determination	Draft Determination
UM type	Re-opener	Same as FD.
Scope	Transmission Operations Campus: A new operational campus to deliver net zero, which will meet all regulatory and security requirements, include resilience by design in the construction, collocate all the real time control and technical support teams required to deliver net zero. A facility with flexibility for expansion both within the building and campus to allow for future needs to be met 2035+. Transmission Training Centre: A new training facility to replace Blackhillock site that SHET expects to close due to the Blackhillock/ Cairnford/Kintore 400kV network upgrade. Transmission Operations Depots: The delivery of six new depots facilities, within the North of Scotland including the islands, to enable vital infrastructure delivery and significantly	Same as FD.

Design	Final Determination	Draft Determination
	improve SHET's operational efficiency and therefore network resilience.	
Authority triggered	No	Same as FD.
Network company re-opener windows	Between 1 April 2027 and 31 March 2028	Change - April 2028 to March 2029
Materiality threshold	Default materiality threshold (see Chapter 6 of the Overview Document).	Same as FD.
Applied to	SHET	Same as FD.

Final Determination rationale and Draft Determination responses

UM type

4.4 Our view is that a re-opener is necessary to manage the uncertainty SHET faces in its property investments during RIIO-ET3. For all investments, we agree with the needs case in principle. We do however retain concerns in relation to the scope of some works and associated costs estimates. Therefore, using a re-opener will enable us to re-evaluate the full needs case and scope once SHET is able to better collate and justify these costs.

Network company re-opener windows

4.5 We have decided to allow an application to may be made between 1 April 2027 and 31 March 2028. This is change from our Draft Determinations position, as SHET requested to bring this window forward by a year. We were comfortable with this suggestion from SHET.

Materiality threshold

4.6 We have decided to set a materiality threshold of 0.5% of annual ex ante base revenue, in line with the default materiality threshold set out in Chapter 6 of the RIIO-3 Final Determinations Overview Document.

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.

Final Determinations summary

Design	Final Determination	Draft Determination
UM type	Re-opener.	Same as FD.
Scope	The repair of subsea cable faults on SHET's network that it did not set out in its Business Plan, or to mitigate the risk of such faults occurring.	Same as FD.
Authority triggered	No.	Same as FD.
Network company re-opener windows	April 2028 and RIIO-ET3 close out.	Same as FD.
Materiality threshold	Default materiality threshold (see Chapter 6 of the Overview Document).	Same as FD.
Applied to	SHET.	Same as FD.

Final Determination rationale and Draft Determination responses

UM type

4.7 We have decided to retain the Subsea Cable Repairs Re-opener for RIIO-ET3. SHET was the only stakeholder to respond to this in our Draft Determinations, and it agreed with our proposal to retain the re-opener.

Network company re-opener windows

4.8 We have decided to create two reopener windows - one in April 2028 and during the close out of RIIO-ET3. SHET disagreed with this position, stating that annual windows would more appropriately allow it to respond quickly to subsea cable risks. We consider that annual windows are inappropriate given the low probability of subsea cable fault events and therefore the low need for SHET to make frequent repairs. We consider that our proposed windows will broadly align with when repairs will be undertaken in RIIO-ET3.

Materiality threshold

4.9 We have decided to set a materiality threshold of 0.5% of annual ex ante base revenue, in line with the default materiality threshold set out in Chapter 6 of the RIIO-3 Final Determinations Overview Document. SHET disagreed with this position and proposed a threshold of 0.1% of RoRE. It said this would lower the

threshold to more appropriately reflect the costs involved and would be in line with a wider price control move from considering annual ex ante base revenue to a focus on RoRE.

4.10 We do not agree, as the current level strikes an appropriate balance between flexibility and risk management. By utilising the default materiality threshold, we are ensuring synergy across re-openers. This level reflects our view that a materiality threshold is important to prevent overuse of re-openers and ensure companies manage some cost risk.

Generation Connections Volume Driver

Purpose: To deliver network capacity to accommodate the changing volumes of connection of generation customers.

Benefits: Providing flexible funding for the network companies to invest in the transmission network in response to the uncertain need of new generation customers to connect.

4.11 TOs are required to provide connection offers within specific timeframes and ensure 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.

4.12 To manage this, we have decided to retain and update the RIIO-ET2 volume driver mechanisms. These mechanisms will apply to projects with uncertain needs but predictable, repeatable, and measurable work, allowing revenue to adjustment with volumes. Table 12 sets out the volume drivers, unit rates and fixed allowances for SHET for RIIO-ET3.

4.13 The atypical threshold, which determines whether a project is funded through the volume driver mechanism or the Load UIOLI or Load Re-opener, is set at ±£10.734m. If the difference between expected expenditure and allowances of the project is outside these thresholds, it will be funded through one of the other mechanisms mentioned.

4.14 Allowances are spread across a four-year period leading up to and including the year of completed project connection following the profile set out in Table 13.

4.15 Demand connection projects are to be funded through the Load UIOLI or Load Re-opener uncertainty mechanisms if the forecast project capital expenditure is less than or equal to £40m or greater than £40m, respectively.

4.16 All Draft Determination responses and decisions are provided in the ET Annex.

Table 12: Generation and Demand Connections Volume Driver modelled unit costs (£m/#, 2023/24 prices)

Volume driver	**Unit of measurement**	**Unit rate (£m)**	**Fixed allowance (£m)**
Substation generation	MW/MVA	[REDACTED]	N/A
OHL new	km	[REDACTED]	N/A
Cable < 1km	km	[REDACTED]	N/A
Cable ≥ 1km	km	[REDACTED]	N/A

Table 13: Generation Connections Volume Driver allowances profile

Licence term	**Year 1 allowance**	**Year 2 allowance**	**Year 3 allowance**	**Year 4 allowance**
GCEt	25%	25%	25%	25%

5. Cost of service

Introduction

5.1 This chapter sets out 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 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. Allowed baseline totex in this chapter directly compares with SHET's baseline submission (after exclusions), but does not reflect the entirety of the available funding upfront, as it does not include ex ante funding such as PCF and UIOLI allowances, volume drivers, pass-throughs or NIA. For SHET's overall ex ante funding, see Table 8.

5.3 Table 14 compares SHET's submitted baseline totex with our Draft Determinations and Final Determinations position at a disaggregated cost activity level.

Table 14: Submitted versus allowed baseline Totex (£m, 2023/24 prices)

Cost area	**SHET submitted totex**	**Ofgem DD**[2]	**Ofgem FD**	**Difference**	**Difference (%)**
Load related capex	-	-	-	-	-
Non-load related capex	1,445.7	1,177.9	1,248.1	-197.5	-13.7%
Non-operational capex	422.9	503.7	388.5	-34.4	-8.1%
Network operating costs	379.3	282.7	342.0	-37.3	-9.8%
Business support costs	802.7	526.4	700.5	-102.2	-12.7%
Closely associated indirects	639.6	484.0	609.5	-30.1	-4.7%
Other costs[3]	335.3	121.6	127.5	-207.8	-62.0%

[2] These values are corrected Draft Determinations values.
[3] Other costs comprise physical and cyber security costs.

Cost area	SHET submitted totex	Ofgem DD[2]	Ofgem FD	Difference	Difference (%)
Core baseline totex	**4,025.5**	**3,096.2**	**3,416.1**	**-609.4**	**-15.1%**

Engineering assessment of SHET's business plan

Plan quality

5.4 SHET's EJP submissions are generally of an acceptable quality. We continue to agree with the majority of investment proposals. SHET did not provide more non-lead asset data which remains our primary concern. We anticipate this will improve through the course of RIIO-ET3 to enable future Electricity Transmission Common NARM Methodology work.

Thematic issues:

Overview

5.5 In this section we have provided three thematic issues we have identified with SHET's EJP submissions that remain pertinent to our decisions: (i) Atypical information; (ii) CP2030 Re-openers; and (iii) Non-Lead Asset Data. These are common issues which we identified in our Draft Determination review of SHET's EJPs. For a more detailed review of SHET's EJPs please see Appendix 1.

Atypical information provision

5.6 In our Draft Determinations we highlighted concerns with the lack of technical supporting information being provided for SHET's Atypical EJPs. In its consultation response, SHET provided us with supplementary evidence to address our concerns on several projects rejected at Draft Determination:

- With respect to Flood Mitigation, we raised concerns regarding SHET's optioneering regarding substations at risk of flooding, requiring intervention. For the same proposed interventions, we also raised concerns regarding town and country planning requirements expressed by SHET and requested further information on where works are required beyond existing site boundaries. SHET responded with sufficiently detailed site-specific evidence for its proposed interventions for us to consider these justified.
- Due to security restrictions on electronic data transfer regarding telecoms infrastructure SHET did not provide us with sufficient detail in its Supplementary Questions (SQ) responses for our review ahead of Draft Determination. As part of our post consultation engagement SHET provided in person analysis which satisfied our SQs originally raised at Draft

Determinations. This included more information and clarity regarding its Telecoms strategy in the form of a list of sites where interventions are proposed and a fibre routing map which sufficiently supports this investment.

5.7 Our position on SHET's noise mitigation strategy EJP remains unchanged from Draft Determination, that the proposed investment is not justified. This is on the basis that the investment would result in double funding for SHET to address planning obligations which contained provisions with respect to noise abatement, that do not appear to have been complied with.

CP2030 Re-openers

5.8 SHET provided additional information on a number of its CP2030 related investments in the consultation response. These were across project specific elements regarding their Load Re-opener requests and clarification on the contents of their proposal for LRE UIOLI funds.

5.9 We accept that the additional information has provided sufficient confidence to enable our Final Determination to be revised for several projects. This is on the basis that the proposed investments at this stage appear to be in the consumer's interest.

5.10 We engaged further with SHET through site visits to establish more clarity on its proposed investments for Shetland and Steady State Voltage EJPs. Our Final Determination represents a change from our Draft Determination:

- With regards to Shetland On-Island Infrastructure, SHETs additional evidence and clarifications reduced some uncertainty in the optioneering and scope. However, we remain concerned that the current bespoke solution may not sufficiently meet future system requirements so the optioneering aspect remains partially justified. SHET has also provided additional clarity regarding interactivity and engagement with SHEPD in delivering a whole system solution.
- With regards to the Steady State Voltage EJP, SHET also provided an addendum to the paper which has also clarified optioneering analysis and site selection which clarified some of our concerns, however the optioneering remains partially justified.

Non-Lead Asset Data

5.11 SHET's non-lead asset data submission was of a lower standard than we would have anticipated, with limited information presented in the response to our Draft Determinations to alter our analysis conclusions. However, despite this concern

our position remains that the non-lead data provided sufficient information to support our review and find the majority of works as justified. As noted above, we expect that SHET will deliver the following through the ET3 period in preparation for Electricity Transmission Common NARM Methodology works:

- All Non-lead asset data collected and collated in a manner which would enable the RIIO-ET4 business plan review.
- The articulation at an asset level of why assets were, and more crucially, were not considered for intervention.

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 EJP[4] basis.

5.13 At Final Determinations 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 find that in Final Determinations that the Needs Case, Optioneering and Scope Confidence for 73 of the OSRs were fully justified (up from 69 at Draft Determinations). This represents 42% of all OSRs. We have not commented further on these OSRs, which are approved in our Final Determinations.

5.15 We found that the Needs Case of 168 OSRs were fully justified, none were partially justified, and 4 were unjustified. This position has not changed from Draft Determinations.

5.16 At Draft Determinations, for Optioneering, 160 OSRs were fully justified, two were partially justified, and 10 were unjustified. SHET's consultation response has altered this to 165 OSRs as fully justified, six as partially justified, and one as unjustified for Optioneering.

[4] 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.

5.17 At Draft Determinations, for Scope Confidence, 71 OSRs were high, 61 OSRs were medium, and 40 OSRs were low. Our Final Determination position has 73 OSRs as high, 66 OSRs as medium, and 33 OSRs as low.

5.18 We note that more than half of the load related submissions from SHET has 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.

5.19 Appendix 1 provides details of our Final Determinations. The funding outcomes of our engineering assessments can be found in the PAM models issued to TOs.

6. Innovation

Background

6.1 The SSMD, Business Plan Guidance (BPG), Draft Determinations and Overview Document identify the criteria and process that we have used to assess NIA funding requests. The Overview Document also details our decisions for NIA oversight, the SIF, increasing third party involvement and innovation deployment.

6.2 We set out below our Final Determinations on SHET's RIIO-3 NIA funding.

Final Determinations decision and Draft Determinations responses

6.3 We have decided to allow SHET £24m of NIA funding. In its Business Plan, SHET requested £25.5m of funding.

6.4 In our Draft Determinations, we proposed allowing SHET £20m of NIA. We proposed deducting £0.5m from SHET's request in relation to its workstream "SF6 Condition Monitoring", as we concluded that this area did not require further innovation funding due to other incentives within the RIIO-3 framework to reduce SF6 emissions and previous funding that has been given in this area. We also proposed reducing SHET's award by 20% to reflect shortcomings in its Business Plan submission against the criteria set out in the BPG.

6.5 In its Draft Determinations response, SHET disagreed with our NIA award, stating that this is a reduction compared to RIIO-2 amounts when accounting for inflation, and that it is not sufficient to meet the scale and ambition needed for the transition. It also disagreed with our position on SF6-related projects stating it needs the money for final work in condition monitoring and replacement.

6.6 SHET provided further evidence against the criteria set out in the BPG, including detail on its NIA areas of focus, how it meets the eligibility criteria and scoping guidance, the work SHET does to ensure there is no duplication, how it disseminates innovation and why its projects cannot be funded by Totex. We found the evidence provided compelling. However, we would have expected more detail at a workstream level on why innovation cannot be Totex funded.

6.7 Based on SHET's response, we decreased its NIA reduction from 20% to 4%.

6.8 On "SF6 Condition Monitoring", we retain our view that this work is sufficiently incentivised through other mechanisms in the price control, such as the IIG Incentive which rewards networks for reducing their SF6 emissions, and that additional stimulus funded is not needed, so our position remains unchanged.

Summary of Final Determinations decision

Level of Network Innovation Allowance (NIA) funding: In its Business Plan, SHET requested £25.5m of NIA funding. Following our assessment, we have decided to allow £24m.

7. Data and Digitalisation

Introduction

7.1 The SSMD, BPG 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 decisions for further digitalisation of the sector through the existing Digitalisation licence condition and a Digitalisation Re-opener.

7.2 We have set out below our Final Determinations position on SHET's RIIO-3 Data and Digitalisation funding.

Final Determinations decision and Draft Determinations responses

7.3 We have decided to allow SHET £175m in Data and Digitalisation funding. In its Business Plan, SHET requested £222m of Data and Digitalisation funding.

7.4 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 pillars are supported by a coherent range of investments that demonstrate strong alignment with our expectations set out in the SSMD and BPG. These include a cloud-native data platform, deployment of digital engineering tools and implementation of a new information management network. SHET responded to stakeholder needs through several customer-facing tools such as asset visualisation and interactive data layers. It also implemented a governance framework to manage its data improvement programme, which aligns well with Data Best Practice (DBP) principles.

7.5 In the BPG we asked licensees to signpost investments that would allow them to connect and utilise the sector-wide Data Sharing Infrastructure (DSI). SHET signalled its readiness through investment in interoperability, metadata standards and open interfaces.

7.6 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 DBP principles and create value for consumers.

7.7 SHET provided feedback in response to the Draft Determinations that it agreed with the level of Data and Digitalisation funding that had been proposed.

7.8 In our Draft Determinations, we considered that £47.18m of proposed investment had been miscategorised as Data and Digitalisation. This included a £22.83m investment in Corporate Services and a £17.56m investment in Managing Obsolescence and Maintaining Currency which were better suited to the IT&T category. We have decided to retain our Draft Determinations position.

Summary of Final Determinations decision

Level of Data and Digitalisation funding: In its business plan, SHET requested £222m in Data and Digitalisation funding. We identified £47m of investments as miscategorised, which should have been categorised as IT&T. This left £175m in Data and Digitalisation funding requested. We proposed to fund £175m at Draft Determinations. We are awarding £175m or 79% of the total Data and Digitalisation funding requested.

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 Final Determinations. It also provides our view on EJPs/OSRs in which our recommendations have not impacted any funding requests.

Table 15: Engineering review of NGET's EJPs

EJP Reference	Ofgem Draft Determination Position	Draft Determination Response Summary	Ofgem Final Determination Position
[REDACTED] 275kV and [REDACTED] Reprofiling T3BP-EJP-081	This EJP included 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 in our Final Determinations. The derogation request should be made through the formal request process.	SHET provided a derogation addendum which included updates on the scope of works with respect to this derogation. NESO analysis is required for this process to complete.	Our decision is that this investment is not justified. This decision is on the basis that a derogation process must be completed ahead of any funding requests. We do however welcome the transparency which SHET has shown.
[REDACTED] 132kV T3BP-EJP-080	This EJP included 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 in our Final Determinations. The derogation request should be made through the formal request process.	SHET provided a derogation addendum which included updates on the connection activity with respect to this derogation. NESO analysis is required for this process to complete.	Our decision is that this investment is not justified. This decision is on the basis that a derogation process must be completed ahead of any funding requests. We do however welcome the transparency which SHET has shown.
Shetland On-Island Infrastructure T3BP-EJP-085	The needs 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 Strategic Spatial	SHET provided further evidence with respect to its proposed solution including detailed interactions with SHEPD.	Our decision is that this investment is partially justified. The optioneering remains partially justified on the basis that while we retain concerns regarding voltage selection of the proposed circuits we agree in general with SHET's proposed

EJP Reference	Ofgem Draft Determination Position	Draft Determination Response Summary	Ofgem Final Determination Position
	Energy Planning. The optioneering is Partially Justified on the basis that SHET's voltage selection appears to limit future optionality and is not in alignment with works on other parts of SHET and the wider GB network.		designs. With respect to the selection of voltage and tower choice, we retain the view that a higher voltage should be considered in detail before the reopener submission.
Steady-State Voltage Paper T3BP-EJP-086	The needs 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 NESO's Pathfinder processes. The optioneering is partially justified as there are concerns around the scope of works planned.	SHET provided clarification of options for both the high and low voltage interventions.	Our decision is that this investment is partially justified. This is on the basis of the chosen static synchronous compensator (STATCOM) equipment location's proximity to the current substations.
[REDACTED]-Noise Mitigation Strategy T3BP-EJP-022	The needs case for SHET's [REDACTED] Noise Mitigation Strategy Paper is not justified as requirement to comply with planning permission conditions has been previously funded. The optioneering is not justified, as while it is likely a restringing will be required, SHET did not provide sufficient non-built options. We expect licensees to comply with the planning conditions that are in place when they are funded to deliver works.	SHET provided additional evidence on a proposed solution citing financial and reputational impact of noise level non-compliance.	Our decision is that this investment is not justified. SHET has previously been funded to deliver a planning requirements compliant design and no further funding should be given for this.

Appendix 2 – Project Load Re-opener Tracks

A2.1 The following projects are eligible for Load Re-opener Track 1:

- [REDACTED]