



Sector Specific Methodology Consultation: Electricity Distribution Price Control (ED3)

November 2025

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Dear Colleagues,

SSEN Transmission response to the Sector Specific Methodology Consultation: Electricity Distribution (ED3)

We welcome the opportunity to share our views on the Sector Specific Methodology Consultation (SSMC) for the Electricity Distribution Price Control (ED3). This response will focus on the principles of the ED3 framework, drawing on our experience and learnings from RIIO-T2 and RIIO-T3. Rather than respond to distinct questions, our response aligns with the high-level themes of the consultation.

SSEN Transmission is responsible for the electricity transmission network in the North of Scotland. We are responsible for the maintenance and investment in the high voltage electricity transmission network. Having submitted our [RIIO-T3 Business Plan](#) and our [response to Ofgem's RIIO-T3 Draft Determinations](#), we have been engaging with Ofgem to develop a regulatory framework that delivers a network for net zero.

It is vital that all future price control settlements are financeable and investable. Ofgem must ensure the cost of capital is globally competitive, reflects the economic environment and scale of delivery required. We believe setting the right financial framework is critical to delivering net zero and Ofgem must prioritise attracting and retaining the financial capital required from investors. Ofgem must bridge the gap between investors return expectations and allowances set under the price control.

Like the RIIO-T3 price control, the ED3 price control is an essential enabler of investment, similarly, investment will be required in anticipation of a steep increase in generation and demand connecting to both the transmission and distribution networks. The upcoming RIIO-3 price control and ED3 must offer certainty to network operators, investors and customers.

In RIIO-3, strategic planning regimes will play a key cross sector role in determining the investment required to achieve clean power by 2030 and to meet Government net zero targets. Alignment between the Strategic System Energy Plan (SSEP), Centralised Strategic Network Plan (CSNP) and the Regional Energy System Plans (RESPs) is fundamental to delivering a coherent pathway towards Net Zero goals. Without this alignment, there is a significant risk of fragmented planning, inefficiencies, and delays in achieving decarbonisation and system resilience objectives.

Transmission Owners (TOs) have a critical role in this process. In Scotland, where transmission begins at 132kV, TOs are uniquely positioned to bridge the gap between the CSNP and the RESP. Their involvement ensures that regional planning reflects transmission realities and supports whole-system coordination.

Given the interaction across transmission and distribution it is vital that collaboration between TOs, DNOs, the system operator, and connecting customers is improved and valued as part of the Regulatory Framework. While strategic coordination, system-level planning, and accelerated infrastructure development remain priorities, we continue to recognise the significance of the customer perspective. Customer satisfaction surveys are essential tools for ensuring that the voice of the customer is accurately captured and strengthened as part of our commitment to quality.

Finally, Ofgem must recognise that many of the strategic planning tools are immature, untested and likely to require multiple revisions during the price control time period. Therefore, there is a risk, that reducing the number of re-openers due to the expected certainty provided by strategic planning could lead to funding gaps for required projects that materialise through the price control. Extending the reopener framework means that costs are only incurred as the need becomes certain.

We welcome the opportunity to comment on the SSMC, and we would be happy to provide further information if required.

Yours sincerely

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Appendix 1 Thematic Review

Strategic Planning

In RIIO-3, strategic planning regimes will play a key cross sector role in determining the investment required to achieve clean power by 2030 and to meet Government net zero targets. Strategic planning regimes like the Centralised Strategic Network Plan (CSNP) and the Regional Energy Strategic Plan (RESP) must consider where the capabilities lie across industry and ensure the regional network operators have clear and constructive inputs into the development of these plans. Strategic planning provides further security on the need for investment and reduces the risk of asset stranding and provides Ofgem with an opportunity to reduce the regulatory burden of load related reinforcement.

We agree with the need for long-term network investment planning and Ofgem's willingness to provide upfront funding of low regret investment with projects aligned with the tRESP and the future RESP. Like RIIO-3, there is an opportunity to allow network operators to secure early access to funding. We support the required collaboration with the NESO on strategic planning, the CSNP and RESP both have the potential to smooth delivery, minimise disruption and better support alignment of investment with system needs.

Alignment between the SSEP, CSNP and the RESPs is fundamental to delivering a coherent pathway towards Net Zero goals. Without this alignment, there is a significant risk of fragmented planning, inefficiencies, and delays in achieving decarbonisation and system resilience objectives.

TOs have a critical role in this process. In Scotland, where transmission begins at 132kV, TOs are uniquely positioned to bridge the gap between the CSNP and the RESP. Their involvement ensures that regional planning reflects transmission realities and supports whole-system coordination.

Considering the critical role of TOs, it is essential to establish a clear governance framework that mandates TOs input into the RESP process. These measures will strengthen whole-system planning, maintain alignment between the SSEP, CSNP and RESP, and provide a robust foundation for achieving CP2030 objective.

Managing Uncertainty

We strongly agree that there is still a role for re-openers in future price controls. In RIIO-3 uncertainty mechanisms, volume drivers, pass through costs and Use-it-or-lose-it (UIOLI) allowances will continue to have a key role to play in managing cost and timing uncertainty. There is a risk, that reducing the number of re-openers due to the expected certainty provided by strategic planning could lead to funding gaps for required projects that materialise through the price control. There is still opportunity for the use of ex-post regulatory regimes or cost pass through mechanisms, and these should not be ruled out.

Data & Digitalisation

We agree that digitalisation is crucial and that it's vital that networks embrace Digital Capabilities and utilise their data as an asset to create efficiencies and improve the deliverability of the capital programme. Therefore, we support enhancing digital capabilities for better data sharing and sector coordination. Digitalisation is an area where close cross-sector cooperation is required to achieve the required for stakeholders. Therefore, Ofgem should consider the role of the National Energy System Operator (NESO) in coordination and facilitating close cooperation across Transmission and Distribution, and on a Whole System basis.

Innovation

The current innovation regime has delivered significant benefits through RIIO-2, however there are lessons to be learned. These lessons focus on the flexibility of the innovation regime, ensuring the eligibility criteria is appropriate and there is a deployment path for recently proven innovative solutions, developed and delivered by other parties or networks and the RIIO-ED3 framework needs to reflect these lessons.

Network Innovation Allowance (NIA) & Strategic Innovation Fund (SIF)

We support retaining NIA for early-stage innovation for RIIO-ED3 to meet the scale of future distribution network challenges. We believe governance should ensure consumer value but remain proportionate, avoiding excessive reporting that could hinder innovation. Existing metrics and processes, like those on the Energy Networks Association's Smarter Networks Portal, should be used to improve transparency without duplicating effort.

We welcome Ofgem's proposal to continue the SIF and see benefits in aligning the distribution innovation approach with that of RIIO-3 for electricity transmission and gas. The SIF has proven to be a critical cross-sector mechanism enabling larger-scale, transformative projects that often involve collaboration between TOs, Distribution Network Operators (DNOs), the system operator, and innovators. It is important that the SIF programmatic approach remains agile – the challenges should be reviewed and adapted if new evidence or technologies emerge mid-period.

Innovation Deployment Funding & Co-Ordination

We support the purpose and proposed approach for the Innovation Deployment Fund in RIIO-T3 for DNOs in ED3. However, we would welcome clarity on whether the Deployment Fund proposed is intended to be a shared pot across electricity transmission, gas, and electricity distribution, or whether a separate allocation will be made for DNOs under ED3. If the fund is to be shared, it will be important to ensure that its size is sufficient to support deployment across all sectors. Given the larger number of DNOs, there is a risk that the fund could be quickly drawn down, potentially limiting access for TOs.

We agree with Ofgem on the importance of better coordination between DNOs, TOs, the system operator, and other stakeholders can achieve accelerated deployment. However, in practice, much of this coordination is already happening or underway through the Energy Networks Association's collaborative portals and working groups.

In addition, we caution against Ofgem's view that deployment of innovation in electricity transmission has been delayed through lack of effective communication, direction and co-ordination between relevant parties. While we recognise there are efficiencies to be realised across the innovation landscape, our experience indicates that deployment delays often stem from funding gaps or risk/reward misalignment.

Workforce & Supply Chain Resilience

We support Ofgem's recognition of the workforce challenges facing our sector, including skills shortages, an ageing workforce, and the need to improve diversity and retention. We also recognise the importance of collaboration and have highlighted multiple ways in which we will engage our supply chain and other parties across the sector as these groups will be instrumental in us all delivering our people ambitions. We agree that upcoming price controls will require long-term, proactive business planning.

We anticipate that the supply chain challenges experienced in delivery of transmission projects will be applicable to the wider industry. We would highlight that Ofgem may need to consider the need to roll-out a similar mechanism to the Advanced Procurement Mechanism (APM) for Electricity Distribution.

Resilient Networks

Climate

Networks must ensure the resilience of the energy system. There are many natural, cyber, and human threats which have the potential to risk the resilience of our network that can materialise during the price control. Regulatory mechanisms which address resilience must have a broad scope to allow asset owners to respond to changing circumstances quickly and with flexibility, in an evolving area such as climate. Network companies are expected to continually progress against their requirements therefore additional investments may arise from these works and this requires resilience reopeners.

We support the differentiated review approach that accounts for the unique geographical and operational contexts of each network company. Climate risk profiles in the north of Scotland differ substantially from those in other areas, and we welcome that Ofgem's assessment has acknowledged different focuses across network types and regions. There is a clear opportunity in both RIIO-3 and ED3 to have a clear plan which is joined up across investment areas to drive climate resilience across distribution and transmission networks. The Resilience Reopener is a crucial aspect of this process.

Network Asset Risk Methodology (NARM) and Common Network Asset Indices Methodology (CNAIM)

We support the overarching objective of improving the functionality of the NARM framework. However, we believe that efforts should focus on resolving existing issues within the mechanism rather than expanding it to include additional asset categories. The benefits of such expansion remain unclear, and there is a risk that it could undermine licensees' individual risk management approaches, which are often tailored to the specific characteristics of each network.

The ED3 consultation reflects a more measured stance than previous communications to Transmission Owners acknowledging that incorporating all remaining asset classes into the current NARM framework may not be appropriate. This is a welcome recognition. That said, we remain concerned that ringfencing these asset classes and applying CNAIM principles could result in a comparable regulatory burden under a different name. While separating them from NARM may help maintain focus on improving the existing framework, it is important that any alternative approach does not introduce duplicative or misaligned obligations.

Introducing further asset categories at this stage would likely compound the challenges already associated with the NARM mechanism. We support an approach that prioritises resolving key issues, such as the Long Term Risk Benefit (LTRB) calculation, where inconsistencies persist across sectors. Addressing these areas first would be more efficient and deliver better value for consumers, while avoiding the risk of prematurely expanding the asset base and triggering costly methodological changes.

NARM Data Assurance

We agree with Ofgem's intent to strengthen the data assurance regime, but the current proposals lack sufficient clarity regarding audit requirements, their scheduling, and how they will be funded. This creates uncertainty around the

operational and cost implications for licensees. It is not clear what deficiency Ofgem is seeking to resolve with this proposal.

Without a clear commitment to proportionate funding, there is a risk that licensees may be expected to deliver significantly more without the necessary resources, potentially undermining the effectiveness of the framework. We are supportive of implementing changes where it is clearly demonstrated that funding is both available and aligned with the scale of the proposed enhancements. However, we have not yet seen a direct reference to such funding provision. Ofgem's indication that licensees should accommodate the introduction of CNAIM through RIIO-T3 and in preparation for RIIO-T4, while maintaining the RIIO-T2 regime, raises concerns about the feasibility of delivering these improvements without additional support.

Incentives

Incentivisation remains a key pillar of the RIIO Framework, but they must be designed in a way to reward or penalise companies for delivering outcomes which are largely under their control. Designing an incentive to achieve a broad policy goal, rather than a specific outcome should be avoided.

There remains a need for an appropriate incentive regime that should adapt to reflect the distinct challenges faced by specific sectors and or licensees. While considering these differences across sectors, the overall incentive package strength needs to be consistent and comparable across the sectors. We believe that the following principles are key to delivering an effective incentive regime:

- Incentives should drive outcomes that deliver benefits for consumers, beyond the Business-as-Usual activities companies are already delivering.
- We believe Activities should be measurable to ensure a transparent and effective incentive methodology can be applied.
- The outcome should be within a company's control and not driven by external factors.
- An incentive should provide sufficient reward to continue to drive the right behaviours without introducing undue risk. We would highlight the ongoing development of Connections Reform and the subsequent impact this may have on implementing appropriate incentives in this area.

Connections

The collective goal of networks is to deliver a network for net zero and the delivery of customer connections plays a critical role in achieving this. We believe that incentives are the correct driver to achieve a whole system, innovative and efficient process post connections reform, with a focus on effective collaboration across organisational boundaries to overcome barriers and delays to meeting shared objectives.

We note that the incentive package proposed for connections in distribution is notably broader than what has been proposed for electricity transmission and a strengthening of the customer satisfaction incentives, by extending it to more connection types. These incentive proposals significantly differ from Ofgem's position on customer satisfaction for Electricity Transmission, through the removal the Quality of Connection Survey (QoCS) from RIIO-T3, implying that customer experience is more important in the distribution sector. While strategic coordination, system-level planning, and accelerated infrastructure development remain priorities, we continue to recognise the significance of the customer perspective. Customer satisfaction surveys are essential tools for ensuring that the voice of the customer is accurately captured and strengthened as part of our commitment to quality delivery.

We acknowledge that with the evolving connections landscape, there will be an increase in number and diversity of connections being requested, including an influx of Low Carbon Technologies (LCTs). We support SSEN Distribution's (SSEN-D) view that LCT connections and their associated enabling works are brought into the connections scope and incentivised. Regarding addition of customer satisfaction survey for LCT connection customers, for accurate reflection of DNO's performance, the survey should be limited to only those LCT customers that are delivered solely by SSEN-D.

Extending the Time to Connect (TTC) incentive to major connections requires caution. TTC works well for minor connections because these processes are relatively standardised and can be objectively measured against common targets. It is our view that TTC is not a suitable incentive for major connections as they are complex and involve factors outside DNOs control, such as planning delays and transmission reinforcement requirements.