

Guidance

Innovative Delivery Incentive Guidance Document

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The Innovative Delivery financial output delivery incentive (Innovative Delivery ODI-F) was introduced in RIIO-ET3 to incentivise Electricity Transmission Owners to adopt innovative approaches to the delivery of network investments that speeds up delivery and provides value to consumers.

This Innovative Delivery Incentive Guidance Document applies to National Grid Electricity Transmission Plc (NGET), Scottish Hydro Electric Transmission Plc (SHET), and SP Transmission Plc (SPT) (the licensees). It sets out:

- the requirements that the licensee must comply with when preparing and submitting an Innovative Delivery Incentive Performance Panel Submission;
- the appointment and role of the Innovative Delivery Incentive Performance Panel;
- the criteria and process by which the licensee's Innovative Delivery Incentive Performance Panel Submission will be assessed, including what information will be used in the assessment process; and
- the methodology that Ofgem will use to determine the value of the licensee's Innovative Delivery output delivery incentive performance reward (IDIPAS_t) for the purposes of a direction under Part D of Special Condition 4.5.

This document is v1.0 of the Innovative Delivery Incentive Guidance Document referred to under Special Condition 4.5 of the Electricity Transmission licence. It will take effect from 7 October 2026.

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1. Introduction

- 1.1 Ofgem¹ is the Office of Gas and Electricity Markets which regulates the electricity and gas industries in Great Britain. The Authority's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems.
- 1.2 The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases, in the security of the supply of gas and electricity to them and in the fulfilment of relevant statutory objectives by the Authority when carrying out its functions as the gas and electricity regulator of Great Britain.
- 1.3 We work in various ways to protect the interests of current and future consumers, such as by regulating the network companies through the RIIO price controls. We set price controls to specify the services and level of performance that the electricity transmission (ET) Transmission Owners (TOs) must provide for users and consumers and to restrict the amount of money that the network companies can recover through network charges over the length of a price control period.
- 1.4 In December 2025, we published our [Final Determinations for the ET price control](#), running from 1 April 2026 to 31 March 2031, RIIO-ET3, that included a new Innovative Delivery financial output delivery incentive ('Innovative Delivery ODI-F'), which is established under the ET Special Licence Condition 4.5.
- 1.5 Key aspects of the incentive are set out below.

Table 1: Summary of the Innovative Delivery ODI-F as set out in Final Determinations (FDs)

ODI-F element	Description
Nature of the incentive	Reward-only, output delivery incentive
Assessment method and frequency	Licensee submissions are assessed by a panel of independent experts twice during the price control period, in Regulatory Years 2027/28 and 2029/30.
Behaviour areas and weighting	Licensees can submit and be assessed in one or more of the following five areas, each weighted differently: 1) Innovations in design / engineering (30%) 2) Effective outage management (30%) 3) Effective NESO collaboration (15%)

¹ In this document we use the terms 'Ofgem' and 'the Authority' as well as the terms 'we', 'us' and 'our' interchangeably. Ofgem is the Office of the Gas and Electricity Markets. The Authority is the Gas and Electricity Markets Authority and is the governing body of Ofgem, consisting of non-executive and executive members.

ODI-F element	Description
	4) Savings in supply chain / contracting (15%) 5) Speeding up delivery (10%)
Maximum reward	As set out in Appendix 1 of SpC 4.5 Up to a total of 0.2% of the individual licensee's Rate of Regulated Equity (RoRE) spread over the two assessment periods – 25% in 2027/28 and 75% in 2029/30.
Reward	Determined by Ofgem, taking into account the Panel's recommendation.

Scope and purpose of this document

1.6 Special Condition 4.5 in the licensees' ET licence and this Innovative Delivery Incentive Guidance Document ('Guidance Document') set out what licensees must comply with in relation to the Innovative Delivery ODI-F.

1.7 This Guidance Document covers:

- Chapter 2 - the eligibility criteria that licensees' submissions must meet, including the information and evidence they must provide in their Innovative Delivery Incentive Performance Panel Submission ('Panel Submission');
- Chapter 3 – the purpose and appointment of the Innovative Delivery Incentive Performance Panel ('the Panel') members;
- Chapter 4 – the assessment and decision-making process that Ofgem and the Panel will undertake to assess a licensee's Panel Submission and determine a reward;
- Chapter 5 – the criteria that the Panel will use to assess a licensee's Panel Submission in each of the five behaviour areas; and
- Chapter 6 – the methodology that Ofgem will use to calculate a licensee's IDIPAS_t, which is the value of the licensee's Innovative Delivery output delivery incentive performance reward.

Document review

1.8 Ofgem may from time to time, following consultation with interested parties, amend this document by direction, in accordance with Special Condition 4.5.

Related publications

1.9 In addition to Special Condition 4.5, this document is to be read in conjunction with our [RIIO-3 Final Determinations – ET Annex](#), which sets out our policy decisions in relation to the Innovative Delivery ODI-F.

Guidance Innovative Delivery Incentive Guidance Document

1.10 See Special Condition 1.1 (Interpretation and definitions) of the ET licence for definitions of the following defined terms:

- Innovative Delivery
- Innovative Delivery Incentive Guidance Document
- Innovative Delivery Incentive Performance Panel
- Innovative Delivery Incentive Performance Panel Submission
- Working Days

2. Innovative Delivery ODI-F eligibility criteria

This section sets out five eligibility criteria that examples of innovative delivery must meet when submitted as part of a licensee's Panel Submission.

Eligibility criterion 1: Examples of innovative delivery must be for innovations in one or more defined behaviour areas

2.1 Licensees must submit examples of innovative delivery ('examples') in one or more of the following areas:

- Innovations in design and/or engineering
- Effective outage management
- Effective NESO collaboration
- Savings in supply chain and/or contracting
- Speeding up delivery

2.2 Where an example is relevant to more than one area, the licensee must submit the example to the behaviour area where the majority of the consumer benefits accrue. For example, an innovation in design and/or engineering may be relevant to effective outage management, but the benefits are, in the majority, avoided system balancing costs. We would expect this example to only be submitted under 'effective outage management'.

Eligibility criterion 2: Examples must be innovative

2.3 The examples that licensees submit in any of the above five behaviour areas must involve one or more of the following in the context of its deployment:

- New equipment or technology, including digital technology;
- New methodology, including procedures or techniques to identify, select, process and analyse information;
- Novel use or application of existing electricity transmission equipment, technology or methodology;
- Novel operational practice directly related to the operation of the GB electricity transmission system; and/or
- Novel commercial arrangement.

2.4 The licensee must provide evidence to demonstrate that the innovative example is materially new/novel or different in the context of the licensee's own relevant

established practices, the GB electricity transmission sector, the wider GB energy sector, and/or internationally.

- 2.5 Where possible, we encourage licensees to pursue digital and data-enabled innovations that would meet the outcomes described by the assessment criteria in Chapter 5.

Eligibility criterion 3: Examples must be of innovations deployed after 1 April 2026

- 2.6 Innovations that were researched, developed and/or tested prior to 1 April 2026, the start of the RIIO-ET3 price control, are eligible if they are subsequently deployed after 1 April 2026 and meet other eligibility criteria. By deployed, we mean an innovation has been implemented and used in a live operational, delivery, commercial, planning, or decision-making context
- 2.7 If the project that the proposed innovative solution has been deployed on is currently or will be subject to an Ofgem cost assessment, such examples must be submitted to the Innovative Delivery ODI-F only after cost assessment is complete, to verify the cost efficiency of the deployed innovation(s). This ensures that any decisions on the Innovative Delivery ODI-F reflect Ofgem's decisions on project assessment.
- 2.8 Innovations that are jointly deployed by one or more ET licensees are eligible. Any potential reward achieved will be split proportionally to each ET licensee's contribution to the benefit delivered or, where this is not feasible, equally between the ET licensees involved.

Eligibility criterion 4: Examples must be for deployed innovations which have not been funded and/or rewarded by another price control mechanism

- 2.9 Deploying innovative solutions carries risk. The price control has direct and indirect mechanisms to fund and/or reward licensees for taking on this risk.
- 2.10 Where the licensee has already received funding or is eligible for a reward for deploying an innovative solution, the same solution would not be eligible for a reward under the Innovative Delivery ODI-F. A non-exhaustive list of examples include:
- Innovations funded through the Strategic Innovation Fund (SIF) Deployment phase would be ineligible. Those funded through the Network Innovation Allowance (NIA) and Discovery, Alpha and Beta phases of the SIF would be eligible if subsequently deployed.

- Any innovation rewarded or eligible for a reward through another incentive in the price control would be ineligible. For example, the SO:TO Optimisation ODI-F rewards licensees for proactively identifying and providing enhanced services to the NESO. This particular incentive is focused on services that represent an innovative approach to reduce constraint costs. The rollout of Dynamic Line Rating (DLR) is an example of an innovation that is eligible for a reward under the SO:TO ODI-F and would therefore be ineligible under the Innovative Delivery ODI-F.
- Any innovation that speeds up delivery of an ASTI project or of a project subject to the Major Projects ODI-F after the Major Projects ODI-F Target Delivery Date has been set, would be ineligible under the Innovative Delivery ODI-F.

2.11 Additionally, where a price control mechanism has the effect of insulating a licensee from all or material deployment risk associated with the innovation, a reward under the Innovative Delivery ODI-F may not be available. Ofgem and the Panel will assess the extent to which funding or rewards under a price control mechanism insulates licensees from risk. A non-exhaustive list of examples include:

- Early Construction Funding (ECF) or Pre-construction Funding (PCF) that funds innovations in design/engineering as it may remove some or all of the financial risk associated with deployment.
- Where adopting an innovation/innovative approach is a result of accessing or using a funding mechanism under the price control, that innovation may be ineligible. For example, one of the requirements for accessing the Advanced Procurement Mechanism (APM) allowance is for licensees to ensure their contracting approach remains as flexible as possible to avoid equipment that becomes stranded or unusable because the project does not go ahead. This could be in the form of innovative equipment design that means it could be easily re-purposed for a different project, or innovative contractual terms that preserve the licensee's ability to keep design options open for as long as possible. The same examples may be ineligible under the Innovative Delivery ODI-F.

Eligibility criterion 5: Examples in a behaviour area must together provide net consumer benefits of at least £5 million

2.12 The purpose of this eligibility criterion is for licensees to demonstrate that the examples of deployed innovation(s) submitted within a behaviour area are materially beneficial to consumers in net terms.

- 2.13 To meet this eligibility criterion, licensees must submit an assessment of economic benefits demonstrating that the examples across a single behaviour area deliver at least £5 million (as determined in FDs) in aggregate net consumer benefits when compared to a credible baseline scenario.
- 2.14 For examples submitted under the ‘Effective NESO Collaboration’ behaviour are, we do not require licensees to demonstrate net consumer benefits of at least £5 million. Licensees are encouraged to quantify and monetise benefits where feasible, however, the Panel will give more weight to the qualitative benefits of collaboration when making recommendations on eligibility under this criterion.
- 2.15 The assessment of economic benefits must evaluate the actual and anticipated impacts of the deployed innovation compared to what would most likely have occurred in its absence. It is not an options appraisal. The focus is on evaluating the incremental impacts of the innovation as deployed.
- 2.16 Net consumer benefits must be calculated on a discounted net present value (NPV) basis and be consistent with the latest version of [HMT’s Green Book](#) and the specific guidance set out in **Appendix 1**. Licensees must, where applicable, use the template provided by Ofgem when presenting their assessment of economic benefits and attach it to their Panel Submission.
- 2.17 While this assessment of economic benefits is separate from reward determination, the Panel and Ofgem will draw on elements of a licensee’s assessment when applying the assessment criteria and reward methodology set out in **Chapters 5** and **6** respectively. To inform the Panel’s deliberations and Ofgem’s decisions in subsequent assessment windows, Ofgem will review benefits claimed in the first assessment window, with a focus on the extent to which the underlying assumptions and supporting evidence have materialised in practice.

3. Innovative Delivery Incentive Panel membership and appointment

This section sets out Ofgem’s requirements for Panel members and how they will be appointed.

Purpose of the Panel

- 3.1 The Innovative Delivery Incentive Panel (‘the Panel’) is a panel of experts established to assess a licensee’s performance under the Innovative Delivery ODI-F.
- 3.2 The Panel will assess the licensee’s performance through evaluation of the licensees’ Panel Submission against the relevant assessment criteria as set out in the Guidance Document. In doing so, the Panel will provide an expert and independent forum through which licensee submissions and supporting evidence can be scrutinised in a consistent manner.
- 3.3 The Panel is an advisory body. It does not make binding decisions. The Panel’s assessment will form a recommendation only to Ofgem.

Panel membership

- 3.4 The Panel will be composed of up to five members, including a Chair. At least one of the members will be a Senior Civil Service equivalent employee of the NESO. The remaining members must be able to fulfil their responsibilities on the Panel in a manner that is independent of the licensees.
- 3.5 Panel members are expected to bring a balanced mix of relevant expertise, which may include experience in and/or knowledge of:
 - electricity networks;
 - engineering and technical delivery;
 - project and programme delivery;
 - commercial and procurement practice;
 - system planning and operations;
 - innovation and infrastructure delivery; and
 - economic analysis and regulation.
- 3.6 This experience and knowledge can be in the context of the electricity transmission sector, the wider energy sector, or similar sectors that involve large-scale infrastructure delivery.

Selection and appointment

3.7 Panel members will be appointed through a process determined by Ofgem and designed to ensure selection based on:

- merit and relevant expertise;
- independence from licensees; and
- capacity to meet the expected time commitment for each assessment window in 2027/28 and 2029/30.

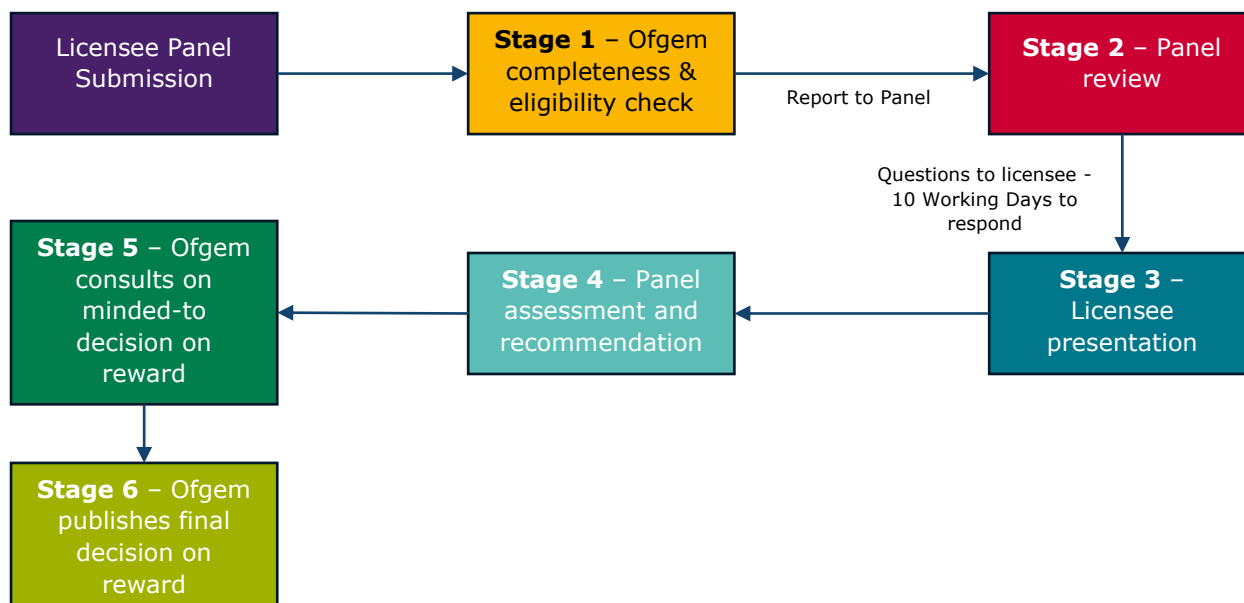
3.8 Appointments will follow appropriate governance and procurement principles, including, where applicable, the Procurement Act 2023 and associated regulations, and declaration and management of actual or perceived conflicts of interest. Panel members will be remunerated as determined by Ofgem.

3.9 Membership will be for a fixed term, ideally across both Innovative Delivery ODI-F assessment periods. Ofgem will keep the composition of the Panel under review between the two assessment periods and may make changes where necessary to ensure the Panel remains effective and appropriately skilled.

4. Innovative Delivery ODI-F assessment and decision-making process

This section sets out the process that Ofgem and the Panel will undertake to assess a licensee's Panel Submission and determine a reward.

Diagram 1: Assessment and decision-making stages



Licensee Panel Submission

4.1 As set out in Special Condition 4.5:

- A Panel Submission is required where a licensee seeks a reward. If the licensee seeks a reward, it must submit on both:
 - the last Working Day of September 2027; and
 - the last Working Day of September 2029.
- Panel Submissions must be published on the licensee's website within five Working Days of submission.

4.2 When preparing and publishing a Panel Submission, licensees must ensure that it:

- is accurate, complete, accessible, easy to understand, and gives prominence to the most pertinent information;
- is no longer than 10 A4 pages per behaviour area, excluding any Excel spreadsheets submitted for the calculation of consumer value;

- provides justification and evidence for how each example of innovative delivery has met the five eligibility criteria in Chapter 2;
- provides justification and evidence for how each example of innovative delivery has delivered the outcomes or outputs set out in the relevant Panel assessment criteria in Chapter 5, as measured against a credible counterfactual.

Stage 1: Ofgem completeness and eligibility check

- 4.3 Ofgem will check a licensee's Panel Submission to ensure it is complete. Licensees will be provided with up to five Working Days to address any missing information in submissions. The complete submission will then be forwarded to the Panel.
- 4.4 Ofgem will next evaluate a licensee's complete submission against the eligibility criteria set out in **Chapter 2**. Ofgem will prepare a report for the Panel setting out to what extent each licensee's Panel Submission meets the eligibility criteria. Ofgem's report will support the Panel's deliberation on which submitted examples are eligible for assessment. The Panel must form its own views on whether a submitted example is eligible for the Innovative Delivery ODI-F.
- 4.5 Ofgem will check the following aspects of a licensee's Panel Submission:
- Do the examples submitted demonstrate new or novel applications of existing equipment, processes, methodologies etc? Ofgem will highlight for the Panel those examples that may not meet this criterion and why.
 - Is one or more example relied on in the application funded or rewarded elsewhere in the price control? If yes, Ofgem will highlight this for the Panel, noting the extent to which the innovative activity is funded or rewarded by a different mechanism.
 - Are the methodologies, assumptions, and inputs used to calculate net consumer value consistent with this Guidance Document and reasonable?

Stage 2: Initial Panel review

- 4.6 The Panel will conduct an initial review of both the licensee's Panel Submission and Ofgem's eligibility report. The review and any Panel discussions are intended to surface questions that the Panel will send to licensees ahead of the next stage, the licensee presentation. The Panel can send each licensee a maximum of five questions per behaviour area that a licensee submits examples in. Licensees will be provided up to 10 Working Days to submit any written responses to questions

from the Panel to supplement its presentation. Responses must be received five Working Days before the licensee's presentation.

Stage 3: Licensee presentation and Q&A

- 4.7 Licensees will be invited to present to the Panel and Ofgem for up to 60 minutes. The presentation must focus on addressing the questions raised by the Panel and not on presenting the licensee's Panel Submission. The presentation will be followed by 30 minutes for Q&A.

Stage 4: Panel assessment and recommendation

- 4.8 At this stage, the Panel will assess submitted examples for eligibility using the criteria set out in **Chapter 2** and for reward using the criteria set out in **Chapter 5**. The Panel will use the following information during its assessment:

- the licensee's Panel Submission;
- Ofgem's eligibility report on the licensee's Panel Submission;
- the licensee's presentation to the Panel and Ofgem, including responses to questions raised before and during the presentation;
- relevant data that the NESO and Ofgem hold on a licensee's performance, including on outage management or on the value of benefits claimed from deployed innovations;
- information from other relevant organisations and/or experts, for example, Innovate UK; and
- any formal views from the NESO to verify relevant aspects of the licensee's Panel Submission, for example, on the licensee's collaboration with the NESO.

- 4.9 The Panel will produce a report and recommendation to Ofgem consisting of:

- the Panel's assessment of which examples are eligible and why;
- the Panel's assessment of each eligible example against the relevant assessment criteria;
- a final score in each of the behaviour areas that a licensee's Panel Submission covers; and
- a justification for why the Panel arrived at that score, including, for the first assessment window, areas that the licensee could improve on in its next Panel Submission in 2029/30.

- 4.10 The Panel's report and recommendation, excluding any information confidential to the licensees, will be made public when Ofgem consults on its direction under Part D of Special Condition 4.5. An unredacted version will be shared with licensees.

Stage 5: Ofgem minded-to decision on reward

- 4.11 Ofgem will consult on our minded-to position on the value of the licensee's performance reward (IDIPAS_t in the licence) taking into account the Panel's scoring and recommendations, and the methodology set out in **Chapter 6**. Our minded-to position will include how we have determined the final score and other inputs to the reward methodology, where relevant.
- 4.12 Ofgem will explain the reasons for our minded-to position, including where these differ from the Panel's recommendation.

Stage 6: Ofgem publishes final decision on IDIPAS_t

- 4.13 Ofgem will direct any amendments to IDIPAS_t in accordance with the process set out in Part D of Special Condition 4.5.

5. Assessment criteria

This section outlines the criteria that the Panel will use to assess and score a licensee's eligible examples for a reward under the Innovative Delivery ODI-F. Each behaviour area (set out in paragraph 2.1) has a unique set of criteria.

Approach to assessment criteria

- 5.1 The purpose of the Innovative Delivery ODI-F is to reward innovative approaches to delivery across five different behaviour areas. These areas are focused on different outcomes or outputs. The Panel will assess the innovative ways in which a licensee has delivered these outcomes or outputs, as measured against a credible counterfactual, which should be set out in the licensee's assessment of economic impacts for each example (see Appendix 1).
- 5.2 For each behaviour area, we set out what are 'baseline' practices and our expectations for 'good', and 'excellent' performance by licensees. Where we have relevant, consistent and quality data to assess a licensee's performance, we use quantitative assessment criteria.
- 5.3 The criteria are not intended to be prescriptive or a check-box exercise; the criteria described throughout this chapter are illustrative of performance that may be eligible for a reward and serve as a guide for the Panel's assessment of the licensees' Panel submissions.

Assessment criteria for innovations in design and/or engineering (30%)

- 5.4 We consider that innovations in design and/or engineering are critical enablers of long-term value for consumers, particularly in the context of an energy system that is evolving rapidly in response to increased electrification and changing patterns of demand. The Innovative Delivery ODI-F therefore seeks to reward approaches that move beyond business-as-usual design by embedding flexibility, adaptability and strategic foresight into engineering decisions. Licensees should show that they actively led the innovation, rather than simply adopting a supplier-led solution.

Assessment criteria

- 5.5 Both criteria 1 and 2 below are mandatory for all submitted examples. The Panel will assess the extent to which a licensee genuinely owns and drives examples of innovations in design and/or engineering that are future-proofed, repeatable and adaptable, rather than locking in short-term optimisation.

Criterion 1: Future proofing and adaptability

5.6 This criterion focuses on the extent to which innovations enable assets and systems to be more flexible, reconfigurable, and resilient to future changes in technology, demand and system requirements.

Performance level	Description
Baseline	Design and engineering choices take account of foreseeable future needs and avoid obvious future constraints, but the approach remains primarily focused on current requirements and does not materially increase future optionality beyond normal good practice.
Good performance	• Innovation demonstrates improved utilisation of existing assets. • Innovation enables greater flexibility in how the system can be adapted. Future changes would be materially easier, quicker and/or lower-cost than would be expected through business-as-usual design and engineering practices.
Excellent performance	In addition to ‘good’: • Innovation delivers system-level future-proofing eg, designs that enable multiple future configurations or technologies, or avoid early obsolescence or hard-to-change constraints. • Innovation demonstrates improved optionality, resilience to future uncertainty, and/or long-term asset management benefits. • Approach is in use across multiple sites, and demonstrates a credible route to wider adoption beyond a licensee’s network (eg, in other licensees’ operations as jointly developed through the Transmission Innovation Deployment groups).

Criterion 2: Ownership and intent

5.7 This criterion ensures that innovations are the result of deliberate licensee leadership, through setting clear design objectives, actively challenging standard approaches, and embedding learning, so that benefits can be sustained and replicated across the network. The innovation need not originate with the licensee, but the licensee is expected to demonstrate leadership in selecting, deploying, governing, and learning from the innovation.

Performance level	Description
Baseline	Design or engineering decisions/choices are mostly delegated to suppliers, with limited evidence of the licensee setting or enforcing design objectives, or actively shaping the deployment of the innovation.
Good performance	Evidence of active licensee involvement in steering and approving the innovative design/engineering approach eg, challenging standard designs, setting explicit design objectives or constraints, owning deployment and implementation decisions.
Excellent performance	In addition to ‘good’: • Licensee demonstrates design/engineering leadership, even if suppliers execute design. • Innovation reflects deliberate design philosophy, not one-off response. • Learning is captured and fed back into standards, guidance and procurement.

Assessment criteria for effective outage management (30%)

- 5.8 Outages across the ET network are both planned (to connect new assets to the network and maintain existing assets), unplanned, and the result of equipment faults. The NESO is responsible for assessing and co-ordinating outages on the transmission system across England, Scotland and Wales to ensure the system operates safely and reliably.
- 5.9 Effective outage planning is important not just to maintain overall system security, but also to reduce costs to consumers. Outages reduce the physical capability of the network and can limit the amount of electricity that is transported. To maintain system stability and manage electricity flows during outages, the NESO must instruct electricity generators to reduce their output. Generators are compensated for this through constraint payments. In 2024/25, thermal constraint costs totalled £1.7bn.² More predictable, well co-ordinated, and stable outage plans can reduce the need for such NESO intervention, helping to lower constraint costs that ultimately flow through to consumer bills.
- 5.10 Outage planning typically starts years in advance and crystallises in the year ahead as system conditions and work programmes consolidate. The planning process between the NESO and transmission owners is detailed within the Grid Code’s

² <https://www.neso.energy/about/strategic-priorities/annual-report-and-accounts>

Operating Code No.2³ and the System Operator Transmission Owner Code Procedures (STCPs).⁴

- 5.11 The NESO co-ordinates outage planning, and licensees report publicly on a set of key performance indicators⁵ relating to network access planning and outage delivery.

Assessment criteria

- 5.12 The Panel will assess the innovative ways in which the licensee has effectively managed outages. Examples are not expected to demonstrate improvements against all four criteria below. The Panel will assess each example against the criterion or criteria that the licensee identifies the innovation was intended to influence. The Panel will assess both the level of performance achieved (or maintained), and the contribution of the deployed innovation to achieving or maintaining that level against a credible counterfactual.
- 5.13 Licensees will be assessed on their performance over a 12-month period after deployment but before the licensee's relevant Panel Submission, based on data recorded in the electricity Network Access Management Systems (eNAMS).

Criterion 1: Reduced outage churn

- 5.14 Outage plans do change over time. However, our expectation is that the number of changes to a licensee's outage plan declines as licensees get closer to the outage period. To assess performance, the Panel will consider the percentage of outage changes during the delivery phase (< 3 weeks from the outage).⁶

Performance level	Description
Baseline	For the first Innovative Delivery assessment window, the baseline expectation is set at a level that is a five-percentage point improvement over the licensee's average performance across the previous two Regulatory Years. For example, if the licensee's average performance on outage changes during the delivery phase (< 3 weeks) in 2024/25 and 2025/26 is 55%, the baseline performance expectation for this criterion would be 50% or lower.

³ [10_Operating Code_2_I6R23.pdf](#)

⁴ [STC Code Documents | National Energy System Operator](#)

⁵ [GB NAP 2025 Revision_TO Updates.pdf](#)

⁶ See section 4.4 of STCP 11-1 for a definition of delivery phase (0-3 weeks ahead):
<https://www.neso.energy/industry-information/codes/system-operator-transmission-owner-code-stc/stc-code-documents?page=2>

Performance level	Description
Good performance	A 15-percentage point improvement on the baseline expectation. For example, if the baseline performance expectation for outage changes during the delivery phase (<3 weeks) is 50% or lower, then 'good' performance for this criterion would be 35% or lower.
Excellent performance	<20% of outage changes during the delivery phase (< 3 weeks from the outage).

Criterion 2: Reduced unplanned (non-fault) outages

5.15 Unplanned outages can be reduced through regular asset maintenance and checks. However, a proportion of unplanned outages are unavoidable. Our expectation is that unplanned outages and their duration are kept to a minimum. To assess performance, the Panel will consider for each licensee the overall trend in total outage days of unplanned (non-fault) outages as a percentage of all outage days.⁷ We expect to see this decrease over time. The Panel will also consider the extent to which improvements have been driven by sustainable changes rather than temporary, one-off factors.

Performance level	Description
Baseline	The licensee's historical average performance over the past two Regulatory Years is maintained through effective processes to monitor, manage and reduce unplanned (non-fault) outages.
Good performance	• A material and sustained improvement (in the context of the licensee's historical averages); and • Evidence that lessons learned are systematically captured and acted upon.
Excellent performance	The licensee demonstrates sector-leading performance in preventing and managing unplanned (non-fault) outages, and can provide compelling evidence that improvements are sustained and embedded within business practices.

Criterion 3: Notice of late return

5.16 When there is a delay in the return of one circuit, it has a knock-on effect on the rest of the plan and delays the start of other outages. This leads to inefficiencies in

⁷ See the National Electricity Transmission System Security and Quality of Supply Standard for a definition of 'Unplanned Outage' and 'Fault Outage': <https://www.neso.energy/industry-information/codes/security-and-quality-supply-standard-sqss/sqss-code-documents>

planning and hinders the on-time delivery of new connections. To assess performance, the Panel will consider the percentage of notices of late return given <1 day before the planned end date of an outage as a percentage of all notices of late return. In assessing this criterion, the Panel will consider the direction, consistency and sustainability of performance improvement over time rather than absolute performance levels.

Performance level	Description
Baseline	The licensee demonstrates a stable trend (in the context of the licensee's historical performance over the past two Regulatory Years) in the percentage of notices of late return given less than 1 day before the planned outage end date. We expect: • Timely and transparent communication with the NESO and affected parties when delivery risks emerge; • Evidence that causes of late returns are understood and reviewed; and • Appropriate improvements are embedded into business-as-usual following lessons learned.
Good performance	The licensee demonstrates a sustained reduction (in the context of the licensee's historical performance over the past two Regulatory Years) in the proportion of notices of late return issued less than 1 day before the planned outage date. We expect: • Evidence that emerging risks are routinely identified and addressed well in advance of outage completion; • Effective use of contingency planning and programme controls to avoid late-return situations; and • Proactive engagement with the NESO and stakeholders to adapt to changing circumstances.
Excellent performance	In addition to 'good' above, the licensee demonstrates sector-leading performance in the proportion of notices of late return issued less than 1 day before the planned outage end date. Short-notice late return notifications are rare and typically limited to genuinely unforeseeable circumstances.

Criterion 4: Availability of reactive compensation equipment

5.17 Voltage on the electricity transmission system has to stay within certain limits and deviations can result in damage to assets. Voltage is mainly controlled through reactive power equipment, which needs to be in the right location to be effective. When reactive compensation equipment is not available in the right place, the NESO has to instruct generators and other units to synchronise to maintain

voltage levels. There are costs associated with this, which are eventually reflected in consumer bills. Access to reactive equipment is therefore important for minimising voltage synchronisation costs.

- 5.18 To assess performance, the Panel will consider the average percentage availability of reactive plant (MVar capacity) across a licensee's voltage zones. Availability means the percentage of reactive compensation equipment that is in service (not on a planned outage) and available to be used.

Performance level	Description
Baseline	>80% of reactive plant (MVar capacity) available across a licensee's voltage zones.
Good performance	>90% of reactive plant (MVar capacity) available across a licensee's voltage zones.
Excellent performance	>95% of reactive plant (MVar capacity) available across a licensee's voltage zones.

Assessment criteria for savings in supply chain and/or contracting (15%)

- 5.19 We consider that innovation in supply chain and contracting is a key lever for delivering value for money for consumers, particularly given the scale and pace of investment required in the ET network. Traditional procurement approaches can limit the ability of licensees to reduce costs, manage risks effectively, or respond to changing delivery conditions. The Innovative Delivery ODI-F therefore seeks to reward not only the quantum of savings achieved, but also how those savings are delivered and whether they are sustainable.
- 5.20 Criterion 1 is mandatory for all submitted examples and represents a minimum requirement for assessment under this category. Overall scores for this behaviour area will reflect the Panel's judgement about how well submitted examples demonstrate performance across all assessment criteria.

Assessment criteria

Criterion 1: Demonstrated savings

- 5.21 The Panel will assess innovations (different from existing licensee models) that deliver demonstrated net consumer benefit through cost reductions and/or cost avoidance, in particular in relation to savings that are achieved in advance of

Ofgem cost assessments.⁸ Savings must be attributable to a licensee's innovative actions, and not market trends.

Performance level	Description
Baseline	Savings are primarily one-off price reductions negotiated within BAU frameworks/contract awards.
Good performance	Material (in context of the cost of project(s) that the savings relates to) and demonstrated net savings and/or cost avoidance across multiple projects or contract awards. Savings primarily reflect reduced cost of goods and services purchased and/or avoided transaction, delivery or risk-related costs.
Excellent performance	In addition to 'good': • Significant (in context of the cost of project(s) that the savings relates to) and demonstrated net savings and/or cost avoidance at a portfolio level. • Savings represent reduced cost volatility, avoided claims or disputes and/or improved delivery predictability. • Savings can be sustained and embedded into BAU.

Criterion 2: Commercial innovation and replicability

5.22 The Panel will assess the extent of commercial innovation and whether new approaches can be replicated to unlock broader, systemic efficiencies.

Performance level	Description
Baseline	Contracting approach uses standard sector practices or templates. Any innovations focused on isolated template tweaks or location-specific changes.
Good performance	Introduces innovative contracting feature linked to savings and performance, eg early contractor involvement, digital or data-led procurement tools. Has a credible replication plan across multiple projects or programmes.

⁸ Savings may include reduced or avoided procurement, transaction, risk-related, financing, delivery, or maintenance costs where attributable to the innovative supply chain and/or contracting approach.

Performance level	Description
Excellent performance	In addition to ‘good’: • Delivers a step-change in commercial model, eg portfolio-wide optimisation / standardisation, or co-ordination across licensees to unlock scale (where appropriate). • Innovation results in systematic improvement, not just cost reduction, but also delivery timelines that is shareable across licensees and/or the sector.

Criterion 3: Market health and resilience

5.23 The Panel will assess the extent to which innovations have achieved savings that support a resilient, competitive and capable supply chain.

Performance level	Description
Baseline	Savings achieved without clear consideration of longer-term supply chain and supplier impacts eg, increased risk transfer, reduced pipeline visibility, limited pre-engagement.
Good performance	Savings achieved through responsible market engagement eg, improved pipeline visibility and supplier engagement, with no material deterioration in supplier resilience, competition or delivery capability. Evidenced through supplier feedback of procurement experience.
Excellent performance	In addition to ‘good’: • Strengthens supply chain resilience and competition while delivering savings eg, reduced single-point dependencies, diversified supply base, workforce and training support, increased UK-based manufacturing capabilities.

Assessment criteria for effective NESO collaboration (15%)

5.24 The NESO is required to publish the first Centralised Strategic Network Plan (CSNP) by 15 December 2028. This first CSNP is expected to provide a long-term, whole-system approach to planning the electricity and natural gas transmission networks to help meet the government’s net zero ambitions. Developing the first CSNP requires timely, high-quality and, in some cases, joint inputs from multiple licensees.

5.25 For the first assessment window, the Panel will assess the innovative ways in which the licensee has enhanced its collaboration with the NESO and other licensees in developing the first CSNP based on the criterion below. Licensees will be assessed on their performance in the 12 months preceding their Panel Submission.

Assessment criteria

Criterion 1: Timely and quality inputs into the first CSNP

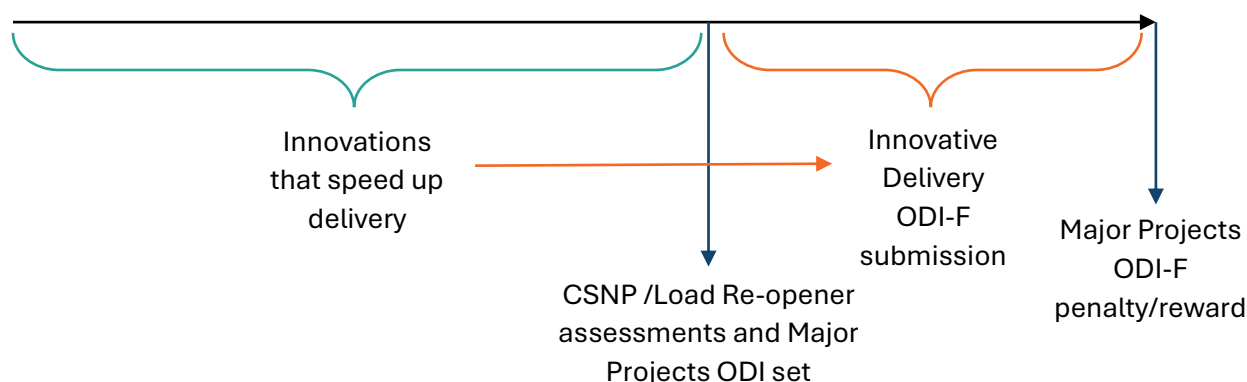
Performance level	Description
Baseline	Baseline performance is demonstrated where the licensee meets the obligations set out in Special Condition 9.22 CSNP Coordination of its licence and in the CSNP Coordination Governance Document .
Good performance	Good performance is demonstrated where, in addition to meeting baseline expectations, the licensee: • engages the NESO sufficiently early to allow meaningful challenge and iteration of options, assumptions, costs and delivery pathways before formal submission stages (eg evidence of at least one round of challenge and response with NESO before formal submission); • provides decision-ready and high-quality submissions beyond minimum requirements (eg submissions that require minimal/ significantly reduced follow-up requests from the NESO; sharing assumptions, methodologies and evidence in a way that enables transparent challenge and comparison across licensees); and • on joint or cross-boundary projects, proactively works with all other licensees and the NESO to resolve issues (eg emerging risks, delivery issues, or data limitations) before formal submission stages, resulting in clearer, more consistent inputs to the CSNP.
Excellent performance	Excellent performance is demonstrated where, in addition to good performance, the licensee: • on all strategically significant CSNP-relevant projects, plays a leading role in cross-licensee collaboration; and • engages the NESO and all other licensees through iterative, joint development of CSNP options, assumptions and/or approaches, rather than bilateral exchanges alone; and • provides clear evidence that this collaboration materially improved the efficiency, robustness and/or timeliness of CSNP development (eg by reducing duplication of work, resolving

Performance level	Description
	cross-licensee disagreements without escalation, or enabling earlier convergence on preferred options).

Assessment criteria for speeding up delivery (10%)

5.26 The overall incentive package for RIIO-ET3 incentivises licensees to deliver network investments on or ahead of schedule. Given this, the focus of ‘speeding up delivery’ within the Innovative Delivery ODI-F is narrower – we want to see innovations that result in realistic timeline accelerations identified by licensees during the development stage and before target dates are established in licences and/or incentives.

Diagram 2: Interaction between Innovative Delivery ODI-F and other price control mechanisms that reward early delivery



5.27 Criterion 1 is mandatory and represents a minimum requirement for assessment under this category. However, overall scores for this behaviour area will reflect the Panel's judgement about how well submitted examples demonstrate performance across all assessment criteria.

Assessment criteria

Criterion 1: Timeline acceleration

5.28 This criterion is focused on the extent to which project delivery target dates are accelerated through innovations. Acceleration should not primarily be achieved through deferring or reducing project scope.

Performance level	Description
Baseline	The licensee demonstrates delivery performance that is broadly consistent with a reasonably expected timetable, but provides limited evidence of material acceleration beyond standard practice. A ‘reasonably expected timetable’ will be informed by the licensee’s standard practice on projects of similar scope, scale and complexity, together with any other sector-wide evidence the Panel considers relevant.
Good performance	The licensee demonstrates a material and evidenced acceleration in the target delivery dates of one or more projects relative to a credible counterfactual timetable for projects of similar scope, scale and complexity. In determining whether acceleration is material, the Panel will consider the extent to which it supports the achievement of the Government’s seven-year target for build time of ET infrastructure. Examples may include: • identifying target delivery dates for £40m+ projects that can credibly support achievement of the government’s seven-year target, where this represents a genuine improvement over what would otherwise have been expected; • demonstrating measurable reductions in delivery time, either in absolute terms (eg months/years saved) or relative terms (eg percentage reduction in programme duration); • showing that accelerated delivery does not come at the expense of scope, quality, safety, resilience or operability; and • providing a well-evidenced and internally consistent case that the proposed acceleration is achievable, with key assumptions, dependencies and risks clearly identified and tested.
Excellent performance	In addition to ‘good’, the licensee demonstrates exceptional or sector-leading acceleration of one or more projects in a way that could inform wider best practice. In determining whether acceleration is exceptional or sector-leading, the Panel will consider whether target delivery dates are within the government’s seven-year target (see above) where such delivery would ordinarily have been considered significantly challenging given the scope, scale, and complexity of the project. Examples may include: • proposing and substantiating delivery timelines for £100m+ projects within the seven-year target (see above);

Performance level	Description
	• clearly evidencing how faster delivery has brought forward significant consumer benefits; and • providing strong assurance and compelling evidence that accelerated timelines are robust, realistic, and resilient to foreseeable delivery risks, including through appropriate validation, stress-testing, and governance.

Criterion 2: Real-time delay management

Performance level	Description
Baseline	The licensee proactively manages delays in a competent and expected manner, but does not demonstrate particularly strong performance in preventing, mitigating or recovering delay impacts.
Good performance	The licensee demonstrates strong and proactive management of delays in real time, reducing the impact of emerging issues on delivery outcomes. This may include: • early identification of risks to the critical path and prompt deployment of mitigations; • effective use of contingency, re-sequencing, re-design, supplier management, or interface management to avoid slippage; • evidence that delays were contained, reduced, or recovered relative to what would otherwise have occurred; • strong co-ordination with external stakeholders (for example, contractors, supply chain, planning authorities, landowners or system partners) to minimise disruption; and • transparent decision-making and governance that supports timely intervention.
Excellent performance	The licensee demonstrates outstanding performance in managing delays in real time, showing an ability not only to respond effectively but to recover the delivery timeline in particularly challenging circumstances. This may include: • preventing major external or delivery shocks from translating into material delivery slippage; • recovering critical milestones through exceptional intervention, adaptive planning, and strong commercial or operational management; • demonstrating repeated success in delay avoidance and recovery across multiple workstreams or projects; • maintaining strategic delivery outcomes despite significant uncertainty, complexity or external dependencies; and

Performance level	Description
	providing compelling evidence that delay management performance materially exceeded what a well-run licensee would normally be expected to achieve.

Approach to Panel scoring

5.29 The Panel's scoring will focus on eligible examples in each behaviour area. These will be assessed in two stages:

- First, all eligible examples will be scored from 1 to 3 against the area-specific criteria. A score of 1 represents an average of 'baseline' performance against relevant criteria and a score of 3 represents an average of 'excellent' performance. The Panel may compare evidence across licensee submissions to support consistent interpretation and application of the assessment criteria. Comparative assessment will not replace assessment against the published criteria, and a licensee's score will not depend on the relative ranking of another licensee.
- Second, examples that score 2 and above will be assessed together to arrive at a combined score of 2 or 3 for that behaviour area. Where a behaviour area has more than one criterion, the Panel will consider the extent to which the licensee's submission demonstrates performance across all assessment criteria to arrive at a score for the behaviour area. The Panel may also consider any non-monetised benefits and Category 3 (longer-term) benefits (see Appendix 1) in its assessment.

5.30 While each Panel member will score individually, it is the responsibility of the Panel Chair to achieve a consensus score for each eligible example and the overall behaviour area.

5.31 The NESO Panel member will be a non-scoring member when assessing the licensees' submissions under 'Effective NESO Collaboration'.

Example of scoring approach

5.32 A licensee submits three eligible examples under 'savings in supply chain and/or contracting'. Each eligible example is assessed across the criteria and scored as follows:

Example	Criterion 1 – Demonstrated savings	Criterion 2 – Commercial innovation & replicability	Criterion 3 – Market health & resilience
Example 1	1 - Baseline	2 - Good	2 – Good
Example 2	3 - Excellent	3 - Excellent	1 – Baseline

Example	Criterion 1 – Demonstrated savings	Criterion 2 – Commercial innovation & replicability	Criterion 3 – Market health & resilience
Example 3	2 - Good	3 - Excellent	1 - Baseline

5.33 The Panel then decides on the following scores for each eligible example. The score represents how the Panel considers the licensee has performed, on average, across all assessment criteria:

- Example 1 is scored 1 or ‘baseline’
- Example 2 is scored 3 or ‘excellent’
- Example 3 is scored 2 or ‘good’

5.34 Based on examples 2 and 3, the Panel arrives at an overall score of 2 or ‘good’ for the behaviour area ‘savings in supply chain and/or contracting’.

Panel’s report and recommendations

5.35 The Panel will report the following to Ofgem:

- the eligible examples for each behaviour area that the licensee submits in and the reasons for determining they are eligible;
- the Panel’s assessment, against the relevant criteria, of each eligible example in each behaviour area that the licensee submits;
- the overall score for each behaviour area that the licensee submits examples in and the Panel’s reasons for the score;
- the net consumer value, as submitted by the licensee, of individual eligible examples in a behaviour area;
- the Panel’s comments on the assumptions and inputs underpinning the licensee’s calculation of the net consumer value; and
- an overall evaluation of the licensee’s Panel Submission, including suggestions for how the licensee could improve its future submission.

5.36 A redacted version of the Panel’s report (without confidential information) will be made public. An unredacted version of the Panel’s report will be shared with individual licensees.

6. Methodology to calculate IDIPAS_t

This section sets out how Ofgem will calculate a licensee's IDIPAS_t, which is the value of the licensee's Innovative Delivery output delivery incentive performance reward.

Approach to calculating IDIPAS_t

- 6.1 IDIMAX_t in the licence, sets the absolute maximum reward per licensee in each assessment window across all behaviour areas. However, rewards will not exceed the net consumer benefits derived from all eligible examples that a licensee submits and are assessed by the Panel. Ofgem will calculate the net consumer benefits using information in the licensee's assessment of consumer benefits, focusing on realised and near-term anticipated benefits (up to 15 years).

Negative adjustment for 'effective outage management'

- 6.2 In our Final Determinations⁹, we decided that, given the importance of good outage management, a licensee's poor performance in this area would result in a reduction in any overall reward achieved through the Innovative Delivery ODI-F. This reduction would apply regardless of whether the licensee has submitted examples under the 'effective outage management' behaviour area.
- 6.3 The reduction would apply if the licensee fails to meet baseline expectations over the duration of RIIO-ET3 up to the point of the licensee's relevant Panel Submission in either of the following two assessment criteria for 'effective outage management'. These areas were selected because underperformance generates the most costs for consumers:
- Criterion 1: Reduced outage churn: If the baseline expectation is less than 50% of outage changes made close to delivery (<3 weeks), then a reduction would apply if a licensee's percentage of outage changes closer to delivery exceed 50%.
 - Criterion 4: Availability of reactive compensation equipment: A reduction would apply if the availability of reactive compensation equipment across a licensee's voltage zones is less than 80%.
- 6.4 Where the licensee considers that its performance has been negatively impacted by events beyond its reasonable control (eg, unavoidable faults, severe weather, or changes made at the request of the NESO), licensees can include evidence for this in their submission for Ofgem to consider.

⁹ [RIIO-3-Final-Determinations-ET.pdf](#), pages 69-70.

6.5 If a reduction applies, a licensee's total reward across all behaviour areas will be reduced by the weighting attached to 'effective outage management' ie, by 30% in a staged manner as follows:

- If either of the criteria is not met, a reduction of 15%.
- If both criteria are not met, a reduction of 30%.

Reward formula

6.6 For each behaviour area, Ofgem will use the following formula to calculate a licensee's reward:

$$IDIPAS_t = \beta * \sum_x w_x * \min(NCV_x, \alpha_x * IDIMAX_t)$$

Where:

- x indexes each behaviour area in which a licensee submits examples
- w is the weighting for the behaviour area eg, 30% for innovations in design/engineering
- NCV (£m) is the net consumer value of all examples that have contributed to the overall score in the behaviour area for a given assessment window, as determined by Ofgem and expressed in 2023/2024 prices
- α_x is the score-based proportion of the reward available:
 - $\alpha_x = 0.5$ if the score in a behaviour area is 'good'
 - $\alpha_x = 1.0$ if the score in a behaviour area is 'excellent'
 - $\alpha_x = 0$ for 'baseline'.
- $IDIMAX_t$ (£m) means the maximum reward in respect of IDI_t for the licensee for a given assessment window, as specified in its licence
- β is the adjustment for below baseline performance on outage management:
 - $\beta = 1$ if the licensee's outage management performance meets baseline expectations for both criteria set out in para 6.3 above.
 - $\beta = 0.85$ if the licensee's outage management performance does not meet baseline expectations in either of the two criteria set out in para 6.3 above ie, a reduction of 15%
 - $\beta = 0.7$ if the licensee's outage management performance does not meet baseline expectations for both criteria set out in para 6.3 above ie, a reduction of 30%

6.7 The weighting (w) for each behaviour area is as follows:

Behaviour area	Weighting
Innovations in design and/or engineering	30%
Effective outage management	30%

Behaviour area	Weighting
Effective NESO collaboration	15%
Savings in supply chain and/or contracting	15%
Speeding up delivery	10%

Calculating IDIPAS_t

6.8 IDIPAS_t will be calculated after applying any negative adjustment to the rewards across all behaviour areas. A licensee can achieve the maximum IDIPAS_t under the following conditions:

- the licensee submits eligible examples in each of the five behaviour areas;
- eligible examples contribute to an overall score of ‘excellent’ in each of the five behaviour areas;
- the total net consumer value (as determined by Ofgem) in each behaviour area is equal to or greater than IDIMAX_t for the licensee; and
- the licensee has exceeded baseline expectations for the two assessment criteria for ‘effective outage management’.

Example of how IDIPAS_t is calculated

6.9 A licensee has submitted eligible examples for ‘innovations in design and/or engineering’ and ‘speeding up delivery’ with a net consumer value of £30m and £10m respectively. The Panel has assessed the examples and awarded the licensee an overall score of ‘good’ for ‘innovations in design/and or engineering’ and ‘excellent’ for ‘speeding up delivery’. The proportionate reward for a score of ‘good’ is £25m and for a score of ‘excellent’ is £50m. The licensee has not met baseline expectations in the two assessment criteria for effective outage management.

Step	Calculation
Reward for innovations in design and/or engineering	$30\% * \min(\pounds 30\text{m}, \pounds 25\text{m}) = \pounds 7.5\text{m}$
Reward for speeding up delivery	$10\% * \min(\pounds 10\text{m}, \pounds 50\text{m}) = \pounds 1\text{m}$
Sum of rewards	$\pounds 7.5\text{m} + \pounds 1\text{m} = \pounds 8.5\text{m}$
IDIPAS _t	$0.7 * \pounds 8.5\text{m} = \pounds 5.95\text{m}$

Send us your feedback

We are keen to receive your feedback about this guidance. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

Appendices

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Appendix 1 Requirements for assessments of economic benefits

- A1.1 These requirements apply when licensees submit an assessment of economic benefits as evidence that their Panel Submissions meet eligibility criterion 5: examples in a behaviour area must together provide net consumer benefits of at least £5m.

Aggregation across examples in a behaviour area

- A1.2 Eligibility criterion 5 applies at the level of a behaviour area (eg, ‘innovations in design and/or engineering’, or ‘speeding up delivery’), not at the level of each individual example. Licensees must therefore provide an assessment of economic benefits for each example and clearly show how example-level results are aggregated to the £5m total in a single behaviour area.
- A1.3 Where multiple examples interact, eg where examples come from the same project and contribute to the same outcome, licensees must describe these interactions and demonstrate how they have avoided double counting. If a single consumer benefit is claimed across more than one such example, licensees must allocate the benefit transparently and justify their approach to allocating the costs and benefits.

Counterfactual or baseline scenario

- A1.4 For each example, a licensee should describe the baseline (counterfactual) scenario that would most likely have occurred if the innovation was not deployed. We expect that in most cases this will represent the pre-innovation strategy/approach or well-established alternative already operating on the licensee’s transmission network.
- A1.5 The baseline is not a ‘do nothing’ or ‘run to failure’ approach. It should be technically feasible and consistent with current regulatory requirements. Where there is more than one possible baseline, the licensee must set out all credible scenarios, not just the least-cost option, before selecting one. Licensees must explain why the chosen counterfactual is reasonable, including reference to relevant decision records, option assessments, or standard delivery practice.

Time horizon and categorisation of impacts

- A1.6 For eligibility purposes, we expect licensees to use a time period that reflects the economic life of the asset or intervention, consistent with Ofgem’s RIIO-3 Cost Benefit Analysis model (see Business Plan Guidance Templates for RIIO-ET3 [here](#)). This is usually up to 45 years, unless licensees can clearly justify a shorter horizon because of the nature of the innovation or its impacts.

- A1.7 To ensure that the assessment of economic benefits can be used for subsequent stages of the Innovative Delivery ODI-F assessment process (including determining any reward), licensees must explicitly separate costs and benefits into the following categories:
- i) **Category 1 – Realised impacts:** Costs incurred and benefits already delivered at the time of submission, supported by data/evidence.
 - ii) **Category 2 – Near term expected impacts (high confidence):** Anticipated costs and benefits over a shorter, credible period (up to 15 years), where the basis for expectation is robust (high likelihood and confidence) and linked to firmly committed costs and/or outcomes of the deployed innovation.
 - iii) **Category 3 – Longer term impacts (contextual):** Impacts beyond the near-term horizon, which are typically subject to higher uncertainty and lower attribution confidence.
- A1.8 Licensees must present the net consumer benefit in a way that allows the Panel and Ofgem to understand the relative contribution of each category of impacts. We expect a meaningful proportion of net consumer benefits to come from realised and near-term expected impacts (Categories 1 and 2) rather than primarily from longer-term, contextual impacts (Category 3). This is because future impacts are often less certain for us to have confidence that consumers will benefit from them.

Costs and benefits for each example

Costs

- A1.9 Licensees must include incremental costs relative to the counterfactual. These may include, where relevant:
- i) capital costs (including design, procurement, construction, commissioning);
 - ii) operating and maintenance costs over the time period relevant to each category of impacts (see para A1.7 above);
 - iii) costs associated with deployment, training, or process change; and
 - iv) material implementation risks or liabilities (where these can be reasonably quantified or described) and an estimate of how much of these fall to consumers.
- A1.10 Licensees should not include costs that would have been incurred under the counterfactual, nor should they treat sunk costs that were committed to before the innovation as incremental unless the counterfactual would not have required them.

Benefits and avoided costs

A1.11 Licensees must focus on net consumer benefits and provide a clear explanation of how each benefit category accrues to consumers. Benefits should be monetised where reasonably practicable. If not, they should be described qualitatively. Only monetised benefits will be considered for the purposes of eligibility, but qualitative benefits may be considered during the Panel assessment and Ofgem's reward determination.

A1.12 Relevant benefit categories are as follows:

- i) **Avoided operational and maintenance costs:** Eg, avoided unplanned/reactive maintenance costs; reduced inspection frequencies; reduced fault response costs; reduced contractor/labour inputs
- ii) **Avoided asset failure and replacement costs:** Eg, avoided emergency repair costs; avoided early asset replacement; avoided reinstatement costs following failure
- iii) **Avoided or deferred capital expenditure:** Eg, avoiding reinforcement, downsizing asset scope, deferring maintenance.
- iv) **Benefits or avoided costs from progress towards decarbonisation and emissions targets:** Eg, lower abatement costs
- v) **Benefits to GB economic growth:** Eg, efficiency benefits, examples of investment
- vi) **Avoided system costs:** Eg, constraint costs, voltage synchronisation costs. Licensees will need to work with the NESO to derive estimates for these avoided costs.
- vii) **Reduced transmission losses:** Licensees will need to work with the NESO to derive estimates for this avoided cost.

A1.13 Where benefits are shared across parties (eg, consumers and connecting customers), licensees must only focus on the consumer share and explain how and why they have allocated this share.

A1.14 Benefits should not be counted, directly or indirectly, more than once across benefit categories or submitted examples. Where relevant, licensees must explain interactions with other incentives or mechanisms in RIIO-3 to avoid duplication.

A1.15 The following should not be included as expected benefits in a licensee's impact assessment:

- i) Benefits that rely on policy, market, or system changes outside the licensee's control and not already in effect;

- ii) Benefits based on replicating or scaling assumptions beyond what has already been adopted; and
- iii) Estimated system-wide benefits where the individual licensee's contribution cannot be robustly assessed or evidenced.

Price base and discounting

A1.16 Licensees must present their assessments using 2023/24 prices and standard discounting based on HMT's Green Book of 3.50% in real terms for years 1 to 30 and 3.00% for years 31 to 75.

Uncertainty and sensitivity analysis

A1.17 We recognise that uncertainty is inherent in forecasting costs and benefits, particularly over longer time horizons. Licensees must therefore:

- i) identify the key drivers of uncertainty in their submission (for example cost out-turn, timing, utilisation, and system conditions);
- ii) explain the basis for their assumptions; and
- iii) provide sensitivity analysis on the most material assumptions, where proportionate.

A1.18 Licensees should avoid relying on highly optimistic or pessimistic scenarios as the baseline scenario. Where material benefits depend on contingent events, the submission should explain the likelihood and the evidence supporting the assumed outcome.

Evidence and assurance expectations

A1.19 The rigour applied to submissions to the Innovative Delivery ODI-F must be proportionate to the scale and materiality of benefits claimed and the maturity of the innovation. Evidence may include (as relevant):

- i) out turn cost data and supporting finance records;
- ii) engineering assessments, design reports, or option appraisal documentation, including cost benefit analysis;
- iii) benchmarking against comparable projects or standard delivery approaches;
- iv) operational performance evidence where benefits are already realised; and
- v) independent assurance where claims are material or particularly uncertain.

A1.20 Where evidence is not available, licensees must explain why, and what would be required for the Panel and Ofgem to have confidence in the benefits estimates submitted.