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By email:
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Date

24th September 2026

Contact
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Dear Neill,

SP Transmission (SPT): Response to Ofgem's RIIO-ET3 Load Re-opener: May 2026 submission window Draft Determinations.

SPT welcomes the opportunity to respond to Ofgem's consultation regarding its minded-to position on SPT's Project Assessment application for full funding for VSRE (XH and XJ Routes Overhead Line Uprating Works) project in the May 2026 Load Re-opener (LR) application window. This was the first LR window in RIIO-T3, and we welcome the prompt review undertaken by Ofgem of the submissions that were put forward by the TOs in May 2026. This is a principal point in the RIIO-T3 period as the decision made in this first round will set the precedent across the rest of the price control, decision therefore needs to be proportionate, consistent, fair and deliver the best value for consumers, growth for the economy and ensure acceleration of transmission investment.

We are however concerned about the **reductions proposed** for VSRE (please see Table 1 below), and the **methodology** applied by Ofgem, notably around a blanket 10% risk allowances and the application of ongoing efficiency, considering the stage of maturity of VSRE, where all contracts have been let and the project is well underway with construction and is due to complete by June 2028. We set out in this response evidence and justification of why these costs should be instated by Ofgem's final decision to allow VSRE to progress at pace with the required funding.

Table 1 – Summary of Ofgem proposed reductions

Category	£m (23/24)	%
VSRE Total costs	158.792	100.0
Operational Training Cut	-0.666	
Risk and Contingency Cut	-4.687	FD cap of 10% of Direct costs
Ongoing Efficiency Cut	-4.987	FD rate of 1% per annum
Load Re-opener DD Allowance	123.852	
PCF True-Up	14.548	
CAI UIOLI	9.138	
Net Zero and Re-opener Development Fund	0.914	
Total allowance	**148.452**	**93.49%**
Funding gap	10.340	6.51%

Furthermore, we disagree with Ofgem's minded-to position not to apply the Major Projects (MP) ODI-F to VSRE, with it being a strategic, Clean Power 2030 (CP2030) project in SPT's portfolio, included in the NOA and the Holistic Network Design (HND). The project is essential to realising the system benefits from the CP2030 portfolio investments, bringing clear benefits to consumers and the wider network if delivered on time, therefore we consider that the MP ODI-F should be applied to VSRE by Ofgem's

final decision. We are particularly concerned that the MP ODI-F criteria are not being applied consistently across TOs as the ODI has been proposed on other TO projects in similar scope to VSRE.

We have set out a summary of the key points in our response below, with detailed answers to Ofgem's consultation questions provided in the below Appendix.

Ongoing Efficiency

Ofgem has proposed to apply an ongoing efficiency (OE) challenge at 1% per annum to VSRE across all costs (direct and indirect), with reference to the approach established in the RIIO-ET3 Final Determinations (FDs). This would result in a significant reduction of proposed VSRE allowance, reducing costs that are fully market-tested and have already been committed or incurred, given the advanced stage of the project that is underway with construction. Out of the direct costs, 86.2% are either incurred or contracted (with the remainder being the estimate for biodiversity costs and risk allowance).

There is a fundamental difference between the level of uncertainty at the RIIO-T3 business planning stage (when ex-ante forecasts of costs are set) compared to the level of cost maturity, based on incurred or final tendered costs at the Project Assessment stage.

Indeed, this is recognised by Ofgem, as we note that the FD confirms that a case-by-case approach should be used in respect of applying OE to re-openers, given the mature stage of the costs which have either been fixed through the contracts or have been incurred. Ofgem confirmed that OE *"should only be applied to cost forecasts within re-openers, not costs already incurred at the point of submission"*.[1]

Therefore, we **do not agree that it is possible to apply ongoing efficiency to the contracted and incurred costs for VSRE (both direct and indirect).**

Risk and Contingency

Ofgem has proposed to reduce the risk allowance for VSRE to 10% of direct costs, to align with the RIIO-T3 FDs. We fundamentally disagree with this blanket approach to risk, which does not take into account project-specific risks and disregards the work undertaken through Quantitative Cost Risk Analysis (QCRA). This simplistic approach does not account for risks associated with each individual project, therefore is unlikely to be efficient for consumers.

LR projects range significantly in scope, scale, location, consenting requirements, supply chain constraints, and potential impact on landowners and communities. Therefore, a generic 10% allowance would not realistically address the full range of foreseeable and unforeseeable risks across all projects.

TOs have undertaken a significant amount of work on risk methodologies (individually and collectively), both in terms of costs and schedules, and this has been shared with Ofgem as part of the VSRE submission including sessions on risk in the development of the VSRE PA (17 March and 20 April 2026). Based on our modelling, the proposed adjustment would reduce the overall forecast confidence level for VSRE to below P20, significantly lower than the P50 position generally recognised as representing the most likely efficient cost outcome. Therefore, we would urge Ofgem to reconsider this blanket approach of 10% and instead apply a bottom-up evidence-based approach, driven by project specific risks in each project's risk register to arrive at a fair and balanced level of risk and contingency

[1] *RIIO-3 Final Determinations Overview Document, para 6.23, page 67.*

allowances for VSRE and future projects. We outlined this fair and balanced approach to risk fully in our PA submission[2].

Ofgem's proposed use of a default 10% Cost and Output Adjusting Events (COAE) threshold appears disproportionate when considered against the scale and value of the VSRE project with none of the identified risk events exceeding this threshold, meaning the mechanism would provide limited practical value in addressing genuine project uncertainty. A 5% threshold would represent a more balanced and proportionate approach, whilst continuing to ensure that only material cost impacts are eligible for consideration.

We note that Ofgem's approach on risk for the LR mechanism differs from recent minded-to positions for projects funded via the ASTI mechanism, where Ofgem assesses the QCRA for projects and provides a view on the risk assessment methodology used by TOs and the validity of risks within the project risk register. Whilst we disagree with the approach Ofgem has applied to ASTI projects of funding risk at the P50 level by default, that approach would have led to a different outcome if VSRE were submitted for cost assessment via ASTI rather than LR. From SPT's perspective there is no difference in contracting strategy or delivery method for an ASTI project vs LR, so it is not clear why the cost assessment methodology for risk in each mechanism should lead to different outcomes. Given LR uses a higher default materiality threshold for COAE of 10%, it would be proportionate to consider providing a higher ex-ante risk allowance for projects funded via LR.

Ofgem has instructed NESO to consider schedule risk, while NESO's consideration of cost risk is being undertaken for wider Centralised Strategic Network Planning methodology purposes. Notwithstanding this distinction, SPT considers it imperative that a clear, detailed and standardised methodology is applied to the assessment of both cost and schedule risk, ensuring a robust and consistent approach across the wider regulatory framework. This should move away from arbitrary or subjective risk adjustments and provide a transparent, evidence-based basis for assessing risk. Consistency across regulatory mechanisms will be essential to support efficient decision-making, provide certainty to stakeholders and avoid ambiguity or conflicting outcomes.

Major Projects ODI-F

Ofgem does not propose to apply MP ODI-F to VSRE. We strongly disagree with Ofgem's position on this as well as its justification, that VSRE does not meet the eligibility criteria for the MP ODI-F, and we maintain that the project's on time delivery will deliver value to consumers through increased transfer capability.

Ofgem has stated in its review that the project is largely an asset replacement project. This is not the case. If the project was a simple asset replacement, we would have replaced the conductor on a like for like basis with a modern equivalent conductor system. This was undertaken on one circuit on the XH route in 2013. For VSRE, the load requirement drives the installation of a twin Matthew Gap High Temperature Low Sag (HTLS) conductor system (which is significantly heavier) and therefore we need to replace a significant number of foundations and reinforce the steelwork on the towers.

As noted in the application, VSRE is a major strategic transmission reinforcement project in SPT's CP2030 portfolio and is essential to realising the system benefits from the CP2030 portfolio of investments. Together these reinforcements will enable increased electricity transfer from Scotland to England, playing a key role in delivering Net Zero by 2045/2050. VSRE was included in the NOA and

[2] *XH and XJ Routes Overhead Line Uprating Works (VSRE) Project Assessment, 7 May 2026*

HND amongst strategic onshore network reinforcements in Great Britain to enable the connection of 50GW of offshore wind by 2030.

We stated in the submission that VSRE is part of a wider package of system reinforcement to increase the transfer capability across the East-West corridor in Scotland, which is part of a wider package of reinforcements to reduce system balancing and constraint costs as part of the HND, the NESO noted the HND GB package would deliver £5.5bn of consumer benefit.

This project is SPT's first OHL project of this scale in the CP2030 portfolio to begin construction. The project is challenging to deliver but its timely delivery will bring clear benefits to consumers and the wider network.

We note some inconsistencies in the application of the MP ODI-F guidance and note that Ofgem is minded to apply the MP ODI-F to other similar OHL reconductoring projects[3]. We would argue that some of those projects that have been recommended for ODI based on their "Strategic Importance" and "Consumer Benefits" justifications are very similar, and the same justification could equally apply to VSRE. In addition, SPT undertook a robust Quantitative Schedule Risk Analysis (QSRA) and arrived at a P50 date for VSRE, based on the methodology aligned with cross-TO principles shared with Ofgem.

The approach Ofgem has taken to assessing the applicability of the MP ODI-F to VSRE would also exclude a significant proportion of the wider SPT onshore portfolio (including ASTI, Load Re-opener and tCSNP2 projects)[4], which largely consists of upgrades to existing OHL and substations which were first constructed at a similar time to the XH and XJ routes. It is not clear why Ofgem would seek to only incentivise new-build infrastructure, when upgrading existing assets is more cost effective and facilitates earlier upgrades to network capacity.

We would urge Ofgem to reconsider this minded-to position on VSRE and to apply the MP ODI-F to ensure TOs are accountable for on time delivery and rewarded where there is earlier delivery for the benefits of GB consumers, a principle which applies clearly to VSRE.

Our engagement with Ofgem to date on VSRE and our future pipeline of RIIO-T3 Load Re-opener applications has been productive and as an economic and efficient TO we will continue to publish all submissions in line with the Ofgem Redactions Policy. We would welcome further discussions on the issues raised in this response, particularly in relation to the ongoing efficiency, uncertain costs, risk and the MP ODI-F.

Yours sincerely,



Lauren Logan
Head of Transmission Regulation and Policy

[3] *RIIO-ET3 Load Re-opener May 2026 Draft Determinations: Major Projects ODI-F annex*
[4] *From across the SPT portfolio (ASTI, LR and tCSNP2), there are at least 13 other routes that will need reconductored.*

Appendix – SPT's Detailed Response to Ofgem's Consultation Questions.

Project Assessment Response

PAQ1. For each project assessed as part of our Project Assessment, do you agree with our assessment of the efficient costs?

VSRE was the only PA submission assessed by Ofgem in the May 2026 window. We've set out below our response to Ofgem's minded-to position on VSRE across the various assessment criteria.

Operational Training

Ofgem has proposed to disallow £0.666m related to Operational Training as this is considered to be included in RIIO-T3 baseline allowances. VSRE however is a non-baseline project, and we note that paragraph 6.36 of the current T3 RIG[5]s states that these activities, where performed by the ETO, will be recorded as indirects. In this context SPT would question why these are disallowed as our expectation is that these should be funded through the Closely Associated Indirects Use it or Lose it (CAI UIOLI), given that this is a project (which is non-baseline) being funded through an uncertainty mechanism rather than baseline. We are concerned that the referenced CAI UIOLI Governance Document does not align with the T3 RIGs.

Inflation-Related Costs

We disagree with Ofgem's proposed exclusion of inflation-related costs, as this does not fully reflect the cost environment that emerged following preparation of the Project Assessment submission. The baseline estimate was developed using contractor pricing submitted in March 2026 and was based on market conditions and input costs known at that time. In particular, the contractor's fuel assumptions were established when the average UK diesel price for the week commencing 2 March 2026 was approximately 142.15 pence per litre. Fuel prices subsequently increased significantly, reaching approximately 177.5 pence per litre by 7 May 2026, representing an increase of around 25% within a short period; diesel prices are currently 196.5 pence per litre in September 2026 (38% up from March 2026). This increase materially exceeds general inflation and directly impacts construction, haulage, plant operation and broader supply chain costs associated with project delivery. We therefore consider these additional costs to represent a genuine Real Price Effect (RPE), arising after the submission baseline was established. Furthermore, this cost increases could not reasonably have been reflected within the contractor's original pricing.

Given the volatile and short-term nature of geopolitical events, including examples such as the 12-day conflict in 2025, it would have been reasonable at the time of pricing to assume that any fuel market disruption would subside prior to Project Assessment approval and project delivery. However, the persistence of elevated fuel costs resulted in a material divergence from the assumptions underpinning the March 2026 submission. As such, we consider these costs to be an unavoidable consequence of market conditions and therefore eligible for consideration for a RIIO-T3 Uncertain Cost Re-opener mechanism, again aligning with the ASTI framework to account for uncertain costs.

Risk and Contingency Allowance

We do not agree with Ofgem's approach to adjust the risk and contingency allowance for VSRE to 10% of the project's direct costs, in line with the approach set out in the RIIO-T3 FDs.

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[5] *RIIO-3 Electricity Transmission Price Control – Draft Regulatory Instructions and Guidance on Data Templates: Version 3.2*

VSRE's risk profile was developed through multiple and detailed workshops (internally and with contractor) to ensure a comprehensive and robust risk profile to inform an evidence-based risk allowance which resulted in a QCRA which quantified the project risk to arrive at a fair and balanced level of the risk value for VSRE. Ofgem's current proposal to adjust risk allowances to 10% disregards the project's unique circumstances and the work behind the QCRA.

We note Ofgem's view to apply this to all current Load Re-openers, and we fundamentally disagree with this approach.

We acknowledge Ofgem's assessment of the complexity of the VSRE project relative to larger strategic reinforcement schemes. However, we consider that the proposed reduction of the Risk and Contingency (R&C) allowance to a flat 10% does not appropriately reflect the project-specific risk profile identified through the PA process. The submitted allowance was based on a combination of contractor-assessed risks and a QCRA undertaken by SPT, incorporating identified and discrete risks that represent genuine delivery uncertainties rather than generic contingency provisions. Based on our modelling, the proposed adjustment would reduce the overall forecast confidence level to below P20, significantly lower than the P50 position generally recognised as representing the most likely efficient cost outcome.

We believe risk allowances should be driven by the maturity, complexity and quantified uncertainty of the individual project rather than an assumed percentage cap. The risks identified within the QCRA are project-specific, evidence-based and, in many cases, unavoidable exposures associated with efficient project delivery. We would therefore welcome further clarification from Ofgem on the rationale underpinning the 10% allowance, including the analysis, benchmarking or confidence level that demonstrates this is sufficient for VSRE. As this is a PA, we believe the allowance should reflect the quantified risk exposure of the project and the most current evidence available, rather than an arbitrary cap which may not adequately provide for efficient delivery.

The proposed approach weakens the incentive to develop and apply increasingly mature risk assessment methodologies. If projects underpinned by comprehensive risk identification, QCRA and QSRA modelling are ultimately subject to an overriding cap, the value of generating more accurate and evidence-based estimates of project uncertainty is significantly diminished where those assessments exceed the benchmark allowance. Therefore, we would urge Ofgem to apply a bottom-up evidence-based approach, to arrive at a fair and balanced level of risk and contingency allowances, thus ensuring best value for consumers.

We have engaged with Ofgem on the risk and contingency approach during our VSRE pre-submission sessions on 17th March and 20 April 2026 but we're happy to arrange a follow up workshop to deep dive into the approach to risk for VSRE or more broadly across the full project portfolio.

Ongoing Efficiency

We disagree with Ofgem's proposal to apply the ongoing efficiency challenge to VSRE, given that this project is at an advanced stage of maturity and is currently underway with construction (having started in March 2026); all contracts for the project are now in place, with the bulk of expenditure having been incurred. The proposed OE adjustment includes PCF; these costs have already been incurred in full and Ofgem confirmed that SPT's PCF costs are efficient, having carried out an ex-post PCF evaluation as part of PA assessment (including Early Enabling Works).

As per the VSRE submission, 86.2% of the total direct project costs are either incurred already or have been contracted.

There is no opportunity to apply ongoing efficiency at this stage of the project, therefore SPT urge Ofgem to remove the OE adjustments from the VSRE allowance.

Cost and Output Adjusting Events (COAE)

In the PA submission SPT proposed to apply an adjusted COAE threshold of 5% to assist in balancing the proposal for a P50 risk allowance; at P50 SPT retains ownership of highly volatile and high impact, low probability (HILP) risks meaning a lower COAE % threshold provides a fairer and more balanced ownership of risk. This threshold reflects a balanced and proportionate approach, ensuring that the COAE re-opener is only triggered in circumstances where cost impacts are material and genuinely unforeseen, while avoiding unnecessary re-openers for relatively minor cost variations that can reasonably be managed within adequate risk allowances.

Ofgem's proposed use of a 10% Cost COAE threshold appears disproportionate when considered against the scale and value of the VSRE project. Based on the current Project Risk Register, **none of the identified risk events would individually exceed this threshold, meaning the mechanism would provide limited practical value in addressing genuine project uncertaint**y. A 5% threshold would represent a more balanced and proportionate approach, whilst continuing to ensure that only material cost impacts are eligible for consideration. Given the size of transmission infrastructure projects, it is highly unlikely that any single event would exceed a 10% threshold. Even at a 5% threshold, the majority of identified project risks[6] would still be unlikely to trigger the mechanism, however it would provide a more realistic means of addressing significant unforeseen events and residual uncertainty that cannot reasonably be identified at the point of PA.

This position does not reflect the nature of the project risks encountered on VSRE, where significant unforeseen risk events can arise that are beyond the control of the licensee but may individually fall below a 10% threshold. The proposed threshold therefore transfers a disproportionately large level of unforeseen risk to SPT and weakens the intended protection offered by the COAE mechanism. Reducing the threshold to 5% would provide a more balanced allocation of exceptional risks, ensuring that genuinely material and uncontrollable cost impacts can be considered through the COAE process while maintaining strong incentives for effective risk management and project delivery. This approach is particularly important given the scale of investment required for VSRE.

This is particularly relevant when considering "unknown unknowns" that emerge during project delivery. For example, following the PA submission, cases of Bovine Spongiform Encephalopathy (BSE), also known as "mad cow disease") were identified within Dumfries and Galloway, creating the potential for restrictions, additional biosecurity requirements and impacts to construction activities. Whilst the likelihood and extent of any impact remain uncertain, this serves as a practical example of the type of pandemic or epizootic event that could not reasonably have been forecast during the preparation of the submission. Such events may result in material additional costs whilst remaining below a 10% threshold, meaning the proposed mechanism would offer little effective protection.

We also consider a 5% threshold to be consistent with previous regulatory precedent. In the Sea Link Project, Ofgem accepted a 5% threshold where NGET had proposed a significantly lower threshold of 0.65%. A similar approach for VSRE would strike an appropriate balance between protecting consumers from inefficient expenditure and recognising that major infrastructure projects remain exposed to unforeseen events outside the reasonable control of the transmission owner.

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[6] Based on the current Project Risk Register (aligned to 2023/24 prices), the estimated monetary value of all risks that would currently qualify as COAE events under the licence represents only 3.29% of the total direct cost (excluding risk).

PAQ2. For each project assessed as part of our Project Assessment, do you agree with our proposed true-up for the Pre-Construction Funding (PCF)?

We welcome Ofgem's assessment of VSRE PCF costs as being efficient. We do not however agree that these are to be adjusted for OE, as these costs have already been incurred or are contracted at the submitted rates. We note that in the RIIO-T3 FD Ofgem acknowledges that the OE should only apply to the costs that are forecasted, therefore SPT's ask is not to apply the OE challenge to VSRE.

PAQ3. Do you have any views on the funding route for the associated Biodiversity related costs?

We welcome the funding for Biodiversity related costs (BNG) being provided through the Load Re-opener allowance for VSRE. We note that Ofgem has identified this as an area that requires further work and SPT is keen to support this work going forward, working with Ofgem and other TOs, to ensure a more comprehensive and robust policy and treatment of these costs in the future.

Major Project ODI-F Response

MPQ1. For each project where we are minded-to apply the Major Projects ODI-F, do you agree with our proposal?

We note that there are OHL reconductoring projects similar to VSRE amongst those submitted as part of May 2026 LR window (such as e.g. Feckenham – Ironbridge OHL), which Ofgem is recommending for MP ODI-F. Given these are HND/Clean Power 2030 projects, we consider that the MP ODI-F should be applied consistently to these strategic projects to ensure they are appropriately incentivised for timely delivery, thereby securing benefits for consumers. Moreover, we consider that all eligible Load Re-opener projects constitute major load-driven reinforcements and, given the substantial consumer benefits they deliver, should be considered for the MP ODI-F.

MPQ2. For the VSRE XH & XJ Routes 400kV Major Refurb project, do you agree that this project does not meet the criteria for the Major Projects ODI-F, and that the ODI-F should not be applied?

We disagree with this proposal. SPT provided our own analysis and justification for recommending VSRE for the MP ODI-F as part of our PA submission. This justification was based on the three key criteria, in accordance with the MP ODI-F Guidance Document:

- **Strategic Importance** – VSRE is a strategic, CP2030 project identified by NESO in the NOA and HND as part of a wider package of reinforcements to increase the transfer capability across the East-West corridor in Scotland and enable increased electricity transfer from Scotland to England, playing a key role in delivering Net Zero by 2045/2050.
- **Consumer Benefit** – The project is part of the reinforcements to reduce system balancing and constraint costs as part of the HND which is set to deliver £5.5bn of consumer benefit[7].
- **P50 Delivery Date** – SPT has undertaken a robust risk assessment and QSRA modelling for the project and has arrived at the P50 date of 28 June 2028.

Timely delivery of VSRE should be incentivised through the application of MP ODI-F.

MPQ3. Do you consider any projects we have not proposed to apply the Major Projects ODI-F on should be applicable?

As per the above we ask Ofgem to reconsider the application of the MP ODI-F to VSRE given its strategic nature and consumer benefits from its timely delivery.

[7] 23 https://www.neso.energy/document/262681/download Page 126- economic and efficient

Thematic Issues (from EA section)

EAQ8. Do you agree with our approach to setting PCF allowances for eligible projects?

We stated our position during RIIO-T3 Draft Determination that the 8.2% default level of PCF is too low and inadequate for the scope of activities classified as Pre-Construction costs. This is demonstrated by VSRE trued-up position exceeding the 8.2% (Ofgem has approved PCF at 9.2% for VSRE through ex-post evaluation of PCF as part of the PA). Additionally, we reiterate that the OE challenge should only be applicable to forecast costs. Naturally, the costs will mature throughout the development phase, and this should be considered when assessing cost firmness/OE at the PA stage.

EAQ9. Do you agree with our approach to Risk and Contingency Allowance for projects submitted to the Load Re-opener?

As detailed in our response to PAQ1, we disagree with a blanket 10% risk and contingency allowance across all projects as this does not account for the wide range of project-specific circumstances and is therefore unlikely to represent value for money for consumers. We recognise that the level of certainty on costs and risks evolves throughout the project development stages, therefore a project-specific approach, based on the unique circumstances and the stage of each project is warranted.

EAQ10.Do you agree with our approach to Biodiversity costs for projects submitted to the Load Re-opener?

SPT is committed to delivering positive outcomes for biodiversity in line with national planning requirements and internal commitments. As part of the RIIO-T3 business plan SPT has committed to at least 10% of Biodiversity Net Gain (BNG) for those projects, which are subject to planning consent. In addition, SPT has committed to delivering No Net Loss of biodiversity as a minimum for permitted development projects, such as VSRE. For VSRE an offsite scheme is being progressed, to compensate for project impacts and SPT included provisional allowance in our Project Assessment submission based on indicative costs.

We welcome Ofgem's minded-to position for VSRE to fund these costs through the LR allowance. We would however advise exercising caution when applying an arbitrary cap at 3.5% of forecast costs for BNG; instead, we believe allowances should be evidence-based supported by further work, as recognised by Ofgem to arrive at a more comprehensive and robust policy and treatment. SPT would be happy to support this work strand, working with Ofgem and other TOs.