



S&C ELECTRIC EMEA LTD

Excellence Through Innovation

RIIO-T3 RELATIVE RISK ASSESSMENT: POST DRAFT DETERMINATIONS

SP TRANSMISSION

SUMMARY REPORT: UPDATE

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1. INTRODUCTION

- 1.1 S&C Electric Company (“S&C”) was appointed in March 2024 to provide consultancy support to SP Transmission (“SPT”) in examining and providing a view on the likely level of risk associated with RIIO-T3 when compared with the current price control period, RIIO-T2.
- 1.2 The original report was developed between April and September 2024 incorporating evidence from a range of sources including Ofgem documentation, external sources, and interviews with the relevant SPT teams working on RIIO-T3 as well as members of SPT’s Independent Net Zero Advisory Council. Its results reflected information available at the time of its development.
- 1.3 The purpose of this update is to outline S&C’s key findings with respect to the changing level of risk following the publication of Ofgem’s Draft Determinations in July 2025. Based on the updated proposals, this report provides a view as to whether the level of absolute risk is likely to be flat, falling or rising along with associated recommendations.

SCOPE AND PROCESS OF THE REVIEW

- 1.4 The starting point for the assessment of relative risk is the arrangements in place for RIIO-T2. This provides the benchmark against which to assess the impact of changes proposed for RIIO-T3. For the purposes of this assessment, the RIIO-T2 position is based on Ofgem’s Final Determinations¹ published in December 2020.
- 1.5 For RIIO-T3 we have based our judgement on the prevailing geopolitical and economic environment as well as the latest position on the regulatory mechanisms for RIIO-T3. Our original assessment was based on Ofgem’s Sector Specific Methodology Decision (SSMD) published in July 2024². This updated assessment is based on Ofgem’s Draft Determinations from July 2025 as well as materials from meetings and working groups since the original report was developed.

¹ [RIIO-2 Final Determinations - Core Document](#) – Ofgem, December 2020








² [RIIO-3 Sector Specific Methodology Decision](#) – Ofgem, July 2024



APPROACH TO THE REVIEW

- 1.6 This report largely assesses risk on a qualitative basis. A qualitative approach is a useful way to examine the direction of risk. It enables a comparison of the factors driving the change in risk and their relative contribution to that risk. It also enables consideration of how regulatory mechanisms may offset risk or indeed contribute to increased risk.
- 1.7 In undertaking this assessment, we used a spectrum to consider how to identify the level of risk. The spectrum is summarised in the following table.

Table 1: Spectrum of Risk

| Position on spectrum | Level of associated risk when compared to RIIO-T2 |
|---|--|
|  | Very Low – risk is likely to fall materially |
|  | Lower – risk is likely to fall |
|  | Low (falling) – risk is flat or falling slightly |
|  | Neutral – risk is flat and broadly equivalent to RIIO-T2 |
|  | Low (rising) – risk is flat or rising slightly |
|  | Medium – risk is likely to increase |
|  | High – risk is likely to materially increase |



CATEGORIES OF RISK

- 1.8 Risk is wide ranging and thus can be defined in different ways. To simplify our assessment, we identified three overarching categories. These categories and their sub-categories are summarised in the following table. This was not intended to be exhaustive but to provide a guide to the types of risk associated with the ET sector.

Table 2: Broad categories of risk

| Risk Category | Sub-Categories | Drivers |
|---------------------|---|--|
| Investment | <ul style="list-style-type: none">• Volume Risk• Delivery Risk• Credit Risk• Technology Risk• Planning Risk• Competition Risk• Contractor Risk• Health & Safety Risk | <ul style="list-style-type: none">• Increased scale & complexity of investment• Impact of new technologies on delivery• Changing demands of planning/land purchasing• Impact of an increased role for competition |
| Geopolitical | <ul style="list-style-type: none">• Climate Risk• Political Risk• Supply Chain Risk• Resource Risk• Operational Risk | <ul style="list-style-type: none">• Increased climate threats• Decarbonisation/Net Zero targets• Supply chain/labour market constraints |
| Regulatory | <ul style="list-style-type: none">• Incentive Risk• Uncertainty Risk• Operational Risk• Financial Risk• Legal Appeal Risk• Revenue Collection Risk | <ul style="list-style-type: none">• Clarity and complexity of regulatory arrangements• Balance of incentives (upside vs, downside)• Controllability of deliverables• Exposure to actions of others |

- 1.9 TOs should face risk in RIIO-T3 but achieving an appropriate balance of risk is important. It is important to protect GB consumers by enabling investment in critical infrastructure that will secure energy supplies and ultimately drive down bills. This means having a package of measures that is sufficiently attractive to ensure companies can access efficient sources of financing to fund the required investment – an investable package.



STRUCTURE OF THIS DOCUMENT

1.10 This document is divided into the following parts:

- Chapter 2 summarises S&C Electric's original assessment of relative risk as presented to SPT in December 2024.
- Chapter 3 provides an update of that assessment reflecting the latest available information.
- Chapter 4 provides updated recommendations to SPT and Ofgem on the approach to relative risk for RIIO-T3.

1.11 This format enables the reader to understand the direction of travel during the course of the RIIO-T3 process and the key factors driving our assessment of that risk.



2. ASSESSMENT OF RELATIVE RISK (DECEMBER 2024)

INTRODUCTION

- 2.1 The purpose of this chapter is to provide a summary of S&C's original findings on the likely change to relative risk in RIIO-T3 in December 2004 i.e., post- SSMD. The aim of our assessment was to determine the aggregate change in relative risk. In other words, the overall direction of risk when all investment, geopolitical, and regulatory risks are taken into consideration. A summary of our view in December 2024 is set out in the following table.

Table 3: Aggregate Assessment of Risk at SSMD

| Risk Category | Changes for RIIO-T3 | Implications for Risk |
|--|--|-----------------------|
| Investment | <p>Significant increase in both the volume and complexity of required investment. These factors exacerbate other risks associated with planning, outages, technology etc.</p> <p>Competition remains an unknown but even the associated uncertainty creates increased risk.</p> | |
| Geopolitical | <p>A range of factors pose a greater risk in RIIO-T3 when compared with the RIIO-T2 Final Determinations.</p> <p>The threats posed by climate change are rising (but may have limited direct impact in RIIO-T3), the challenge of decarbonisation deepens as we get closer to the deadlines for Net Zero targets, and supply chains and resources become tighter as the same challenges are tackled on a global scale.</p> | |
| Regulatory | <p>Ofgem recognises the risk challenge and some of the proposed measures for RIIO-T3 are designed to address that risk. At the same time, in other areas Ofgem is currently proposing changes that could increase the level of risk.</p> <p>The biggest challenge is uncertainty given many remaining gaps in the SSMD with areas deferred for decision later in the price control process. These fuel further risk.</p> | |
| AGGREGATE RIIO-T3 RISK POSITION | <p>The combination of investment and geopolitical factors indicate a significant rise in relative risk. At best, the RIIO-T3 proposals would have a neutral impact, but depending on how existing gaps are addressed, they may increase risk in some areas.</p> | |



EXPLANATION OF OUR AGGREGATE ASSESSMENT

- 2.2 Our key conclusion was that both investment and geopolitical risk were rising. This was aligned with messaging from Ofgem in statements made in both its SSMC and SSMD. Therefore, we determined that the key to understanding the aggregate risk position was how the regulatory arrangements mitigate the rising risk levels and, considering that response, whether these needed to change or whether additional measures were required.
- 2.3 The report recognised that some of the measures set out by Ofgem in its SSMD were designed to reduce risk. These included plans to adjust the sharing factors for the Totex Incentive Mechanism, the commitment to mechanisms to support major projects, and the introduction of an overarching Resilience Re-opener to address increasing resilience threats. Having said this, a key consideration was how these mechanisms would function in practice which was not sufficiently clear for all mechanisms at the SSMD stage.
- 2.4 Further, we identified that there were other mechanisms proposed by Ofgem that could inadvertently increase risk. These included plans for sharper incentives on the TOs around timely and high-quality delivery of major projects, the treatment of connection incentives, the grouping of major project re-openers including the Medium Sized Investment Project (MSIP) re-opener into a single mechanism, which is still under policy development including calibration (or re-calibration for existing mechanisms), thereby posing a risk of creating confusion or indeed that some projects were left without a funding mechanism. Albeit we recognised that the actual impact of these mechanisms would depend on their calibration, which could have mitigated some of the associated risk. The common theme was that the size of the investment challenge was rising and delivering investment at pace in a world where delivery will not be fully within SPT's control, posed a challenge that is difficult both to measure and to mitigate. As a result, it was concluded that such measures would increase risk for SPT.



- 2.5 On balance, based on information available in December 2024, we assessed regulatory risk to be either flat or slightly rising in RIIO-T3. We noted at the time that this reflected Ofgem’s own assessment in the SSMD where it noted that it was “minded to slightly increase the overall risk profile and RoRE range for RIIO-3, with the potential for a more pronounced increase for the subsequent price control (all else being equal).”³ This provided a clear signal regarding Ofgem’s view of the direction of risk, although not on the level of any increase.
- 2.6 Separately, as part of the SSMD Ofgem noted that *“In assessing changes in risk, it is vital that we do so on a ‘net’ basis. In other words, we must assess the overall change in risk, including new or updated mitigations used throughout the price control package ... It is the aggregated balance of the whole price control that should influence the associated balancing of overall risk and reward.”* It also clarified that it would *“... expect higher levels of risk exposure to be accompanied by an offsetting increase in expected returns (i.e., a higher cost of equity).”*⁴
- 2.7 Taken together, these are helpful statements. Ofgem has consistently recognised that it is the aggregate risk position that matters, reflecting the fact that some factors will drive increased risk while others will drive a reduction in risk. This is reflected in Figure 1 which was presented in our original report, and which summarised the impact of the proposed changes to the regulatory framework on the ‘net’ risk position. In the centre of the chart are areas where the risk level was determined to be broadly flat i.e., comparable to risk levels faced in RIIO-T2. Components of the regulatory proposals that were assessed as reducing risk are shown as black boxes to the left of the central axis. We concluded that these were outweighed by factors that would increase risk in RIIO-T3, shown as black boxes to the right of the central axis.
- 2.8 Reflecting this assessment and Ofgem’s own view that the risk profile for RIIO-T3 is rising, and with no offsetting reduction in investment and geopolitical risk, then the clear evidence in

³ [RIIO-3 Sector Specific Methodology Decision - Overview Document](#) – Ofgem, 18 July 2024, p17

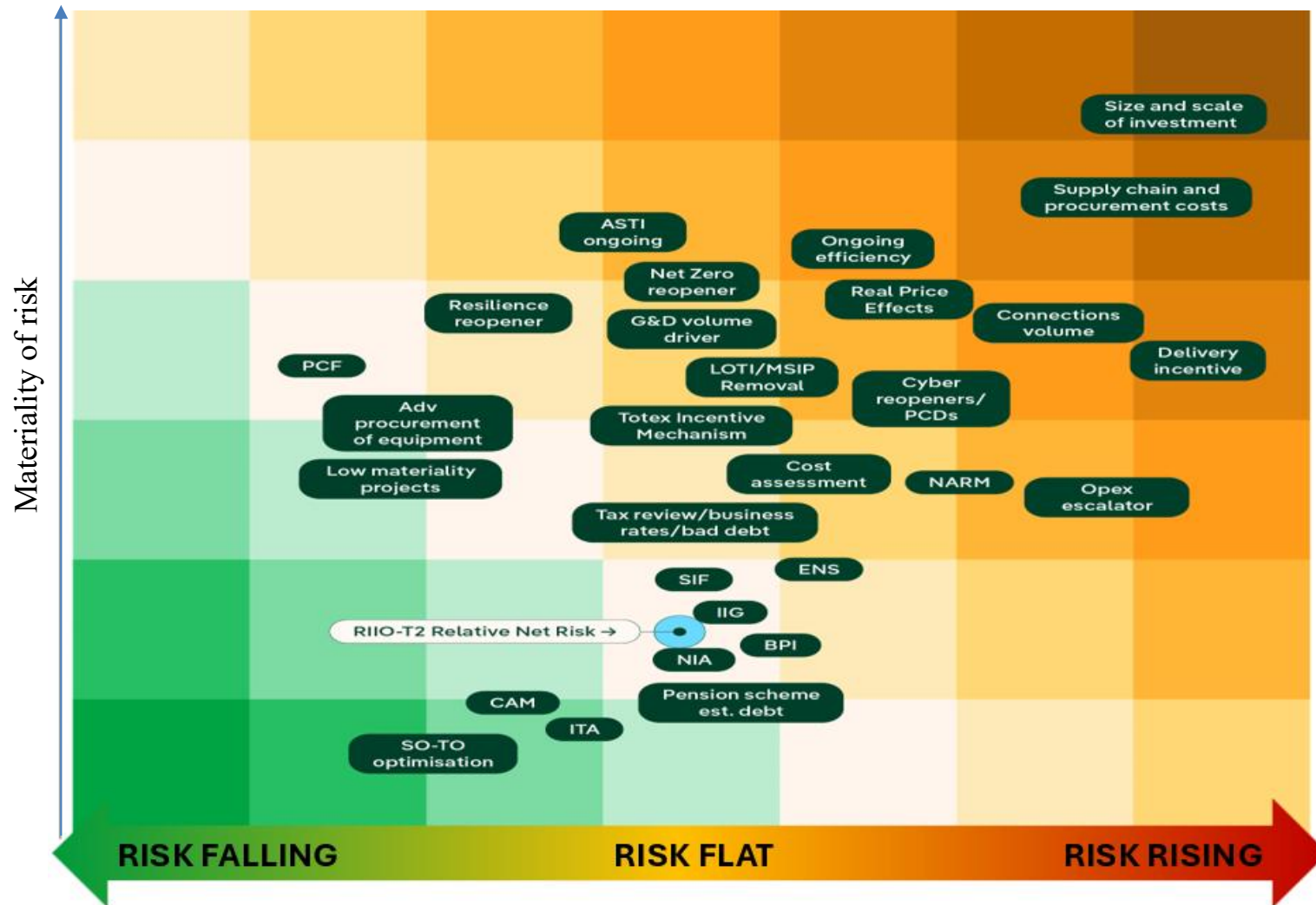
⁴ [RIIO-3 Sector Specific Methodology Decision - Finance Annex](#) – Ofgem, 18 July 2024, p116



December 2024 was that the overall level of risk was likely to be rising that this needed to be reflected in the financial settlement including a higher cost of equity.



Figure 1: Relative risk position versus RIIO-T2 in SSMD





3. UPDATED RISK ASSESSMENT – POST DRAFT DETERMINATIONS

INTRODUCTION

- 3.1 The purpose of this chapter is to provide an updated view on the likely change to relative risk in RIIO-T3. This reflects the assessment of additional information from Draft Determinations as well as other factors impacting the context for the control.

WHAT HAS CHANGED – INVESTMENT AND GEO-POLITICAL RISK

- 3.2 There have been a range of changes in relation to both investment and geo-political factors. The main changes can be summarised as follows:
- **Investment risk** – The position remains largely unchanged with the volume and complexity of the required investment significantly outstripping previous regulatory periods. However, the extent of the challenge faced has been reinforced by the National Infrastructure Commission (NIC) in its report on creating capacity for the future.⁵ It noted that “*Continuing the current price control model will limit investment certainty and carry a high administrative burden for companies and Ofgem, slowing decision-making.*” At the same time, Ofgem itself in the RIIO-ED3 Framework Consultation noted that “... *the downside for consumers of network underinvestment in network reinforcement would be greater than the downside of overinvestment.*”⁶
 - **Geopolitical risk** – Again while the same challenges highlighted in the previous report remain, the early stages of the new Trump Administration in the U.S. have raised the risk of a trade war and geopolitical conflicts have either continued or escalated. The impact of tariffs on global markets and supply chains remains volatile despite the announcement of a deal with the UK. At a minimum, increased uncertainty fuels further risk. Alongside this,

⁵ [Electricity Distribution Networks: Creating capacity for the future](#), NIC, February 2025

⁶ [ED3 Framework Consultation](#), Ofgem, November 2024



the publication of the Clean Power 2030 Action Plan⁷ crystallized the UK Government's messaging on the importance of clean power and homegrown energy to protecting British customers from the unpredictability of global energy markets. Its publication increases the pressure for prompt action if its goals are to be achieved in the next 6 years (i.e., within the RIIO-T3 timelines) including direct monitoring of companies via data requests. This increases the risk of failure to meet the targets.

- 3.3 Both these areas were already identified as high risk in our December assessment. Recent developments have reinforced those conclusions.

WHAT HAS CHANGED – REGULATORY RISK







- 3.4 If both investment and geopolitical risks continue to rise then the overall risk profile will again be determined by the regulatory framework which will in turn will be driven the aggregate impact of changes to numerous individual mechanisms. The Draft Determinations provided significant clarity on the direction of most of the mechanisms and therefore a clearer overall picture of risk, although the details of some mechanisms remain to be finalised. The revised risks can be classified into three distinct categories:

- **New risks** –Areas where Ofgem has introduced new measures since the December assessment which impact the risk profile, these can either increase or reduce aggregate risk.
- **Increased risks** – Areas where risks were already identified but have increased in materiality as a result of changes proposed since SSMDs; and
- **Reduced risks** – Areas where risks were already identified but have reduced in materiality as a result of changes proposed since SSMDs.








⁷ [Clean Power 2030: Action Plan](#), UK Government, December 2024

3.5 These changes and their potential impact on the risk profile are summarised in Table 4. Alongside this, we have set out proposed actions to offset the change in risk. For completeness, a full assessment of the risk impact of all relevant mechanisms is provided in Appendix 1.








Table 4: Key drivers of the changing risk profile

| Area | Drivers of changing risk profile | Offsetting actions |
|--|---|---|
| LRR LO and Minimum Availability Standard  | NEW RISK MEASURE – Expose TOs to risk of licence breach associated with the delivery of LRR projects when many of the drivers will be outside of its control. Adopt a 93% availability standard. | Disproportionate to apply across all projects. Retain more targeted RIIO-T2 approach. 93% availability target is arbitrary and requires further justification or for it to be reduced. |
| LRR Cost and Output Adjusting Events  | NEW RISK MEASURE – Ofgem proposing a 10% threshold for a re-opener in the event of material changes to an output - lower than the 20% applied to the LOTI Re-opener but higher than the 5% ASTI threshold. Ofgem recognises, “a high COAE threshold results in significant TO exposure to the risk of cost increases.” | Adopt threshold of 5% reflecting the ASTI precedent. |
| Connections Capacity ODI  | NEW RISK MEASURE – Removal of timely connections and introduction of a new mechanism measuring capacity creation. Note upside higher than downside but risk of penalty for uncontrolled risk remains. | Ensure measure does not result in punitive penalties across connections projects including adoption of ‘delay events’ for circumstances outside the TO’s control. |
| Innovative Delivery Incentive  | NEW RISK MEASURE – Reward significant consumer value in relation to five TO behaviour areas in the delivery of RIIO-ET3 outputs (50-100bps of RoRE). Based on panel assessment in 2028/29 and 2031/32. | A positive measure driving a reduction in risk. However, it requires an annual assessment of a written submission and based on objective scoring. |
| CNSP Coordination (LO)  | NEW RISK MEASURE – Hold licensees to account for effective collaboration with the NESO on the CNSP. Additional risk but Ofgem notes will not impose “unreasonable or unachievable obligations” on TOs. | Not convinced mechanism is required given obligations in codes. If retained provide draft guidance to provide clarity on obligations. |
| Community Benefit Fund Pass-Through  | NEW RISK MEASURE – Reflects guidance for community funds for ET infrastructure which standardises funding levels on a per-asset basis for each project. | A positive measure but 10% limit on administration costs could result in a funding gap and needs to be addressed. |



| Area | Drivers of changing risk profile | Offsetting actions |
|---|--|---|
| Operational Transport Emissions  | NEW RISK MEASURE – Set a target number of ZEVs and associated charging infrastructure in Final Determinations. | Provide early notification of intended targets. |
| CAI UIOLI  | NEW RISK MEASURE – Provide upfront CAI allowances on a UIOLI basis in addition to baseline allowances. Some limitations on funding are based on parameters used to set the UIOLI pot. | Review parameters to ensure appropriate funding pot to support necessary CAI and include a mechanism for topping up the UIOLI pot. |
| BSC Re-opener  | NEW RISK MEASURE – To address growth, will be triggered mid-period if both totex and BSC outturn costs are above 15% of allowances. | Need to set threshold at an appropriate level or there will be a funding gap for BSC. |
| Delivery Incentives  | INCREASED RISK – Lump sum for delivery before/on the Target Delivery Date (TDD) of 2.5% of forecast totex, and daily reward for early delivery and penalties for late delivery. Some improved parameters since SSMD including deadbands but offset by lack of clarity on scope/ metrics mean enduring uncertainty (and associated risk) of how it will apply. Excluding some delay events including supply chain constraints, therefore reducing risk mitigations. Uncertainty of application has been introduced as Ofgem may choose to apply to projects outside the CSNP on a case-by-case basis. | Increase clarity of scope to enable quantification of risks and rewards including process for setting the Output Delivery Date (ODD). Re-evaluate combined use of LOs, PCDs, and ODIs to recognise factors outside SPEN's reasonable control. Clear criteria of when Ofgem will apply the CSNP-F to non- CSNP projects. |
| Cost Assessment  | INCREASED RISK – Range of inconsistencies emerging in proposals. Shift from 'Best-view' to 'Baseline and flawed elements of the benchmarking leaves significant shortfall in funding.' Uncertainty in treatment of indirects. | Adopt 'Best-view' approach in line with Business Plan Guidance. Revise approach for Indirect cost assessment to fully account for growth. |
| ENS  | INCREASED RISK – VoLL remains undetermined which means unclear if mechanism will reflect true value of lost load. | Update VoLL and provide clarity on rate. |
| IIG  | INCREASED RISK – Changed treatment of exceptional events with increased materiality threshold and tightening of definitions. | Revert to T2 approach to ensure a better overall balance of risk. |



| Area | Drivers of changing risk profile | Offsetting actions |
|---|---|---|
| Net Zero Reopener  | INCREASED RISK (DIMINISHED BENEFITS) – Introduction of Authority only trigger diminishes accessibility. | Remove Authority only trigger. |
| G & D Volume Driver  | INCREASED RISK (DIMINISHED BENEFITS) – Changes to unit rates make it unworkable, thereby removing value of mechanism. | Recalibrate approach for determining unit rates to ensure it addresses the range of RIIO-T3 investments. |
| Load UIOLI (low materiality projects)  | INCREASED RISK (DIMINISHED BENEFITS) – Ofgem proposing UIOLI adjustments (clawback) by Direction, which would not allow TOs CMA appeal rights. Current calibration of the pot will see it diminish quickly. | Undertake full statutory consultation to preserve CMA appeal rights. Consider value/ need to replenish UIOLI pot. |
| Pre-Construction Funding  | INCREASED RISK (DIMINISHED BENEFITS) – Value of PCF proposed to remain at 2.5% despite addition of early enabling works. Also, early strategic land purchases are no longer funded in RIIO-T3. | Reflect early enabling works by increasing the value of the PCF. SPT has proposed an updated value. This does not include risk of a gap for strategic land purchases (additional c.7%). |
| SO-TO Optimisation  | INCREASED RISK (DIMINISHED BENEFITS) – Reward only but introduce a clawback mechanism that will penalise TOs for failing to fulfil the requests for enhanced services the NESO makes. Includes more actions in BAU and therefore not applicable for the incentive. | Remove clawback component as punitive. |
| TIM  | REDUCED RISK – Adopt a ‘Stepped TIM’ with differing sharing factors depending on over/spend-spend. | A positive measure driving a reduction in risk. Ofgem should also consider an asymmetric TIM to provide an opportunity for outperformance in the full ODI package. |
| CAM  | REDUCED RISK – Increased flexibility and use by removing re-opener windows and include an Authority trigger. | A positive measure driving a reduction in risk. Appropriate governance needs to be applied. |

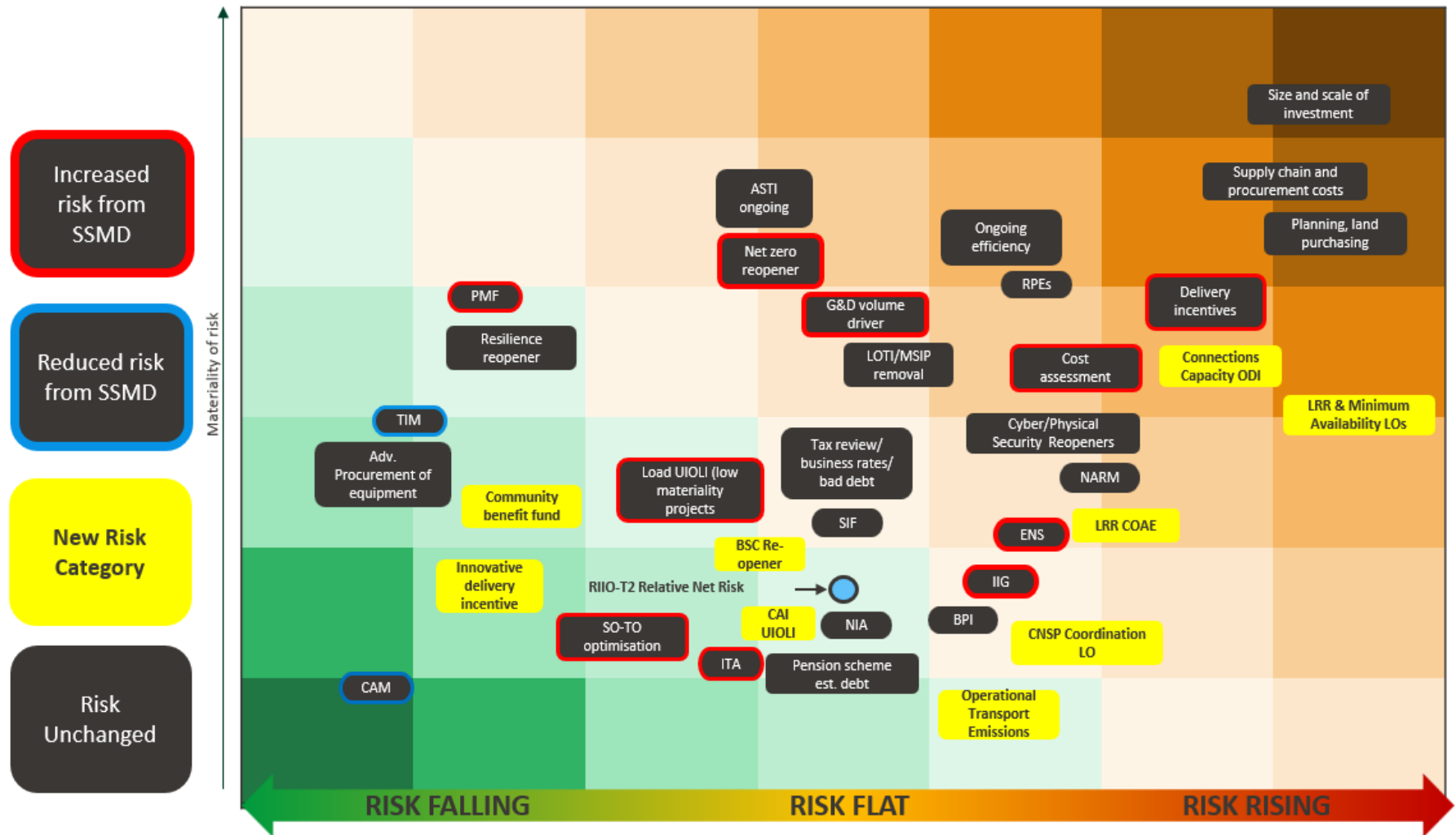


AGGREGATE IMPACT ON REGULATORY RISK

- 3.6 A review of the changes since SSMD shows that many will have a positive impact on reducing regulatory risk, this is particularly true of the revised plans for the Totex Incentive Mechanism (TIM) and the changes to the Coordinated Adjustment Mechanism (CAM). On the other hand, these are offset by increased risk resulting from the LRR proposals which are reflected in the combined impact of delivery incentives, licence obligations, and the minimum obligations standard. They are also offset by gaps in funding as a result of a flawed assessment of indirect costs and the proposed uncertainty mechanisms for indirects (CAI UIOLI and BSC Re-opener) having significant limitations. The key consideration is therefore how to weigh up these risks.
- 3.7 On balance, reviewing the impact of the changes outlined in Table 4 we have concluded that the regulatory risk is **higher** under Draft Determinations than at SSMD. This can be demonstrated by the updated risk profile reflected in Figure 2. This highlights that the increased risk is largely driven by a combination of two factors: (1) The relatively greater proliferation of new measures, driving increased risk; and (2) the diminished value of mechanisms that were previously driving reduced risk e.g., changes introduced to PCF, Load UIOLI and SO:TO optimisation.



Figure 2: Updated view of relative risk position versus RIIO-T2





4. S&C ELECTRIC RECOMMENDATIONS

INTRODUCTION

- 4.1 In light of our updated assessment of relative risk, the purpose of this chapter is to identify a final set of recommendations for both SPT and Ofgem to address the increased risk position for Final Determinations.

ADDRESSING A RISING RISK PROFILE – THE ROLE OF SYSTEMATIC RISK

- 4.2 Our assessment has shown that the overall risk profile is rising. We recognise from previous Ofgem statements that this is, at least in part, intentional. While it is appropriate that there must be a balance of risk between network companies and customers and that TOs should be accountable for risks they can control, it is self-defeating if the regulatory arrangements expose TOs to disproportionate risks beyond their control. It compromises delivery and ultimately increases risk for both the companies and customers.
- 4.3 In assessing the change in risk position, it is important to distinguish systematic risk which is a broader economic risk and thus non-diversifiable from non-systematic risk which is company/sector specific and is diversifiable. In its Draft Determinations Ofgem outlined the view that it “...did not think any additional risks identified were systematic, non-diversifiable, and therefore something that consumers should compensate investors in energy networks for.” Indeed, it went further stating that the higher investment requirement in RIIO-T3 was non-systematic and “...these risks have been addressed in the RIIO-ET3 package (including ASTI) and that an increase in the beta coefficient, which would be of necessity arbitrary in size, is not necessary as a further measure.”
- 4.4 While we recognise and therefore agree with Ofgem that not all risk identified is systematic, we consider it overly simplistic to dismiss the broader impact of a range of factors which are shaping the risk profile in RIIO-3. This includes the combined impact of the scale and complexity of the required investment, continuing challenges around land planning and access, persistent supply



chain and resource constraints and enduring uncertainty around connection volumes. When taken together these factors drive a fundamentally different risk profile from the one faced in RIIO-2 and thus careful consideration needs to be given to the balance of mechanism used to mitigate those challenges. This must recognise the need to address both systematic and non-systematic risk.

- 4.5 The starting point is the range of regulatory mechanisms which can either act to reduce or increase risk. As our assessment in Chapter 3 showed, the aggregate impact of the mechanisms as set out in Draft Determinations is to further raise risk. Consequently, adjustments to key mechanisms in Final Determinations would be necessary in order to achieve a more manageable level of non-systematic risk.
- 4.6 The next consideration is ensuring the rising risk profile is reflected in the financial settlement for RIIO-T3. It is notable that there was significant movement in the financial proposals between SSMD and Draft Determinations. This included an increase in the Cost of Equity from 5.00% to 5.64% (64bps higher) and a change in overall real WACC from 4.11% at SSMD to 4.61% in Draft Determination (50bps higher). Further, on cash measures, Ofgem's proposals provide an immediate financeability uplift.
- 4.7 On the other hand, there remain challenges with the financial proposals as detailed in Draft Determinations. In particular, we retain concerns over the Framework for Investability and its ability to fully recognise both the prevailing macroeconomic environment and the scale of the delivery requirements to meet our Net Zero targets. To do so it is imperative that the financial package is sufficiently attractive to investors. To ensure this is the case, some key changes are required, notably:
- Providing clarity on Ofgem's selection criterion for determining the equity beta as currently a wide range of asset betas have been retained meaning enduring uncertainty over the level that will be used for Final Determinations.
 - Basing the Total Market Return (TMR) on cross-checking methodologies which would suggest a higher range than currently proposed in Draft Determinations.
 - Reflecting the convenience premia in the Risk-Free Rate (RFR).



- Adopting an appropriate set of cross-checks in determining the Cost Of Equity range as at present Ofgem has placed undue weight on a more limited set of cross-checks than those presented by Frontier Economics leading them to conclude a range that would be towards the bottom-end of a reasonable range.

4.8 Overall, while there have undoubtedly been positive steps by Ofgem that signal a trend towards a more supportive financial package in RIIO-T3, the associated uplift that would be provided would not sufficiently mitigate the aggregate impact of the combined investment, geopolitical and regulatory risks that we have identified. This means the requirement for: (1) actions to reduce the impact of some of the factors driving increasing regulatory risk; and/or (2) further movement in the financial parameters as indicated above to close the gap.

4.9 Reflecting these conclusions, we set out below specific recommendations for changes to address areas where the relative risk is rising in RIIO-T3. Note that these recommendations are impacted by where we are in the RIIO-T3 process. We are now at an advanced stage of the price control process with Final Determinations due later this year. We have therefore been targeted in identifying 9 priority areas of focus to ensure a positive outcome for all stakeholders.




The Priority Areas of Focus

4.10 In the following table we set out mitigation measures to tackle specific risks in 9 priority areas which represent the most material risk categories. For each risk, the proposed mitigation measures are split into the following categories:




- Category 1: SPT action to address risk
- Category 2: Regulatory (Review existing mechanisms)
- Category 3: Regulatory (Introduce new mechanisms)
- Category 4: Regulatory (Provide additional allowances)
- Category 5: Regulatory (Address systematic risks)
- Category 6: Other

4.11 Note, for several of the identified risks we envisage a combination of measures will be required. The following table summarises these proposed measures.




Table 5: Specific recommendations for addressing material risks

| Risk Area | Specific Recommendations |
|---|--|
| <p>1. Scale & complexity of investment</p>  <p>P&L/Cash Impact (pa) Over £50m</p> | <p>Category 1: SPT</p> <ul style="list-style-type: none"> • Leverage innovation opportunities • Fully harness the benefits of digitalisation <p>Category 2: Regulatory (Review existing mechanism)</p> <ul style="list-style-type: none"> • Major Projects – enable quicker, more streamlined approach <p>Category 5: Regulatory (Address systematic risk)</p> <ul style="list-style-type: none"> • Reflect in financial proposals – positive progress made in Draft Determinations, but further movement in key parameters is required to mitigate the substantial new and growing risks posed by new technology & integration, construction activity, network access and management, and increasing demand and utilisation of the network |
| <p>2. Planning & land purchasing</p>  <p>P&L/Cash Impact (pa) £10-25m</p> | <p>Category 1: SPT</p> <ul style="list-style-type: none"> • Introduce community benefits alongside engagement with stakeholders to increase understanding of local aspirations and increase public acceptance <p>Category 5: Regulatory (Address systematic risk)</p> <ul style="list-style-type: none"> • Reflect in financial proposals – positive progress made in Draft Determinations, but further movement in key parameters is required to mitigate new/ growing risks relating to complex planning processes and purchasing. Lack of strategic land funding for re-opener projects. <p>Category 6: Other</p> <ul style="list-style-type: none"> • Need for legislative change to support increased speed |
| <p>3. Supply chain/ resource constraints</p>  | <p>Category 1: SPT</p> <ul style="list-style-type: none"> • Move away from disaggregated contract model to a looser, more flexible ‘portfolio’ style of contracting • Increase collaboration with other network companies/ suppliers <p>Category 5: Regulatory (Address systematic risk)</p> <ul style="list-style-type: none"> • Increase financial parameters to attract investment – positive progress made in Draft Determinations, but further movement in key |



| Risk Area | Specific Recommendations |
|---|--|
| P&L/Cash Impact (pa) £25-50m | parameters is required to mitigate new and growing risks relating to the significant increase in demand for materials and skilled labour |
| <p data-bbox="219 436 462 527">4. Load-Related Projects – Delivery Incentives</p>  <p data-bbox="207 699 474 762">P&L/Cash Impact (pa) Over £50m</p> | <p data-bbox="506 436 1166 468">Category 2: Regulatory (Review existing mechanism)</p> <ul data-bbox="555 478 1393 678" style="list-style-type: none"> • Adjust delivery incentives to reduce both controllable and uncontrollable risk • Re-evaluate combined use of LOs, PCDs, and ODIs to recognise factors outside SPEN's reasonable control thereby reducing the risk of a punitive result and providing a better balance of overall risk |
| <p data-bbox="246 821 435 884">5. Connections volume</p>  <p data-bbox="207 1056 474 1119">P&L/Cash Impact (pa) Over £50m</p> | <p data-bbox="506 821 711 852">Category 1: SPT</p> <ul data-bbox="555 863 1393 894" style="list-style-type: none"> • Enhanced engagement with ESO to manage process and messaging <p data-bbox="506 926 1166 957">Category 2: Regulatory (Review existing mechanism)</p> <ul data-bbox="555 968 1409 1031" style="list-style-type: none"> • Ensure new capacity mechanism does not result in punitive penalties across connections projects. <p data-bbox="506 1062 1154 1094">Category 3: Regulatory (Introduce new mechanism)</p> <ul data-bbox="555 1104 1409 1167" style="list-style-type: none"> • Complete broader review of connections policy to ensure it is 'fit for the future' including an approach to support prioritisation <p data-bbox="506 1199 1122 1230">Category 5: Regulatory (Address systematic risk)</p> <ul data-bbox="555 1241 1414 1365" style="list-style-type: none"> • Reflect in financial proposals – positive progress made in Draft Determinations, but further movement in key parameters is required mitigate new/ growing risks relating to the integration and processing of new, variable, and intermittent generation connections |
| <p data-bbox="207 1396 474 1459">6. Financial – Cost of Debt/ Cost of Equity</p>  <p data-bbox="207 1631 474 1694">P&L/Cash Impact (pa) Over £50m</p> | <p data-bbox="506 1396 1356 1428">Category 2: Regulatory (Review existing mechanism) – Cost of Debt</p> <ul data-bbox="555 1438 1393 1501" style="list-style-type: none"> • Ensure package of measures recognises the inherent risks of having higher levels of debt in RIIO-T3 <p data-bbox="506 1533 1377 1564">Category 2: Regulatory (Review existing mechanism) – Cost of Equity</p> <ul data-bbox="555 1575 1398 1881" style="list-style-type: none"> • Adjustment to the beta calculations to reflect forward-looking risk via selection of point estimate (address systematic risk) • Use cross-checking methodologies for determining the TMR • Use flat WACC for TOs for regulatory consistency and investability • Adopt a more ET-relevant assessment of Market Asset Ratios • Adopt a broader range of cross-checks to determine an appropriate CoE range • Provide further transparency on Ofgem's selection criterion for determining the equity beta |



| Risk Area | Specific Recommendations |
|---|--|
| <p>7. Cost Assessment</p>  | <p>Category 2: Regulatory (Review existing mechanism)</p> <ul style="list-style-type: none"> • Use 'Best View' for determining indirect allowances rather than Baseline as better reflecting indirects required for growth in investment programme • Ensure allowances adequately reflect the cost pressure in RIIO-T3 rather than being based on lowest unit costs between T2 and T3 (particularly evident for NOCs) • Ensure mechanisms to enable additional funding for BSC (re-opener) and CAIs (UIOLI) enable sufficient funding and are not based on arbitrary thresholds which artificially restrict investment • More away from use of GT data as its use likely to skew data given clear differences in cost drivers between sectors • Move away from historical indirect regressions or lower their weightings |
| <p>8. RPEs</p>  <p>P&L/Cash Impact (pa) £25-50m</p> | <p>Category 2: Regulatory (Review existing mechanism)</p> <ul style="list-style-type: none"> • Fully reflect uncertain cost environment including addressing increased market volatility and supply chain challenges • The materiality threshold should be reduced/ removed and a consistent and improved set of RPE indices & dynamic weightings applied for all companies |
| <p>9. Ongoing efficiency</p>  <p>P&L/Cash Impact (pa) £25-50m</p> | <p>Category 2: Regulatory (Review existing mechanism)</p> <ul style="list-style-type: none"> • Ensure mechanism is reflective of the scale of the delivery challenge and does not penalise delivery at pace • Address errors in current comparator analysis, in particular the inclusion of 'Information and Communication,' a sector which bears no similarity to the ET sector from a growth perspective. This is leading to an over-statement of the top-end of the OE range |



Addressing the growth in systematic risk

4.12 This table demonstrates that despite an improved set of financial parameters at Draft Determinations, and contrary to the view Ofgem expressed in Draft Determinations, SPT continues to face systematic risk in RIIO-T3. This is reflected in:

- Scale and complexity of investment – Through a combination of construction, technology, resource constraints, ‘lock-in’ and utilisation risks.
- Land planning and access – Reflected in the impact of delays in obtaining planning permits, planning conditions, and public resistance.
- Supply chain and resource constraints – Resulting from shortages of materials and skilled labour as well as the impact of geopolitical tensions on accessing critical components.
- Scale and uncertainty of connections – The surging volume of connection requests, integrating new generation sources, and challenges predicting future demand patterns.

4.13 To support the growth required in RIIO-T3 it will be critical to have a clear commitment to investability. This means a package that is attractive to investors, which is particularly important as the TOs will have to compete for capital on a global stage at a time when other countries are also striving for growth and decarbonisation. Financing will go where the returns are most attractive. This means it is imperative that the financial settlement in RIIO-T3 reflects the changing risk profile, presenting an attractive investment prospect. It is right that SPT should bear risk, but equally it should not be exposed to risk beyond its reasonable control. If it is, there is a greater risk that the energy transition cannot be delivered which ultimately impacts GB energy consumers.

APPENDIX 1: ASSESSMENT OF RISK BY PRICE CONTROL MECHANISM

Table A1: Overarching regulatory mechanisms









| Parameter | Changes from RIIO-T2 to RIIO-T3 | Implications for risk |
|-----------------------------|---|---|
| Totex Incentive Mechanism | <p>Plan to adopt a ‘Stepped TIM’ with differing sharing factors depending on over/under-spend. Three bands: 25% sharing up to 5% of over/under-spend; 5% sharing at 5%-15% over/under-spend; and no sharing beyond 15% over/under-spend.</p> <p>Impact of DD on risk: Reduced from SSMD</p> |  |
| The Business Plan Incentive | <p>Retain but simplify. More emphasis on completeness and an “in-the-round” assessment of costs and ambition.</p> <p>Maximum reward/ penalties set at +/-60 bps of RoRE, a slight strengthening of the incentive compared with RIIO-T2. The assessment remains largely subjective. There is an inappropriate £3m penalty for SPT in the comparative cost assessment based on flawed Ofgem analysis.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Strategic Innovation Fund | <p>Retain with similar materiality of around £500m (reflecting inflation).</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Ongoing Efficiency | <p>Retain and proposing 1% per annum at the totex level for RIIO-T3.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |

Table A2: Load-Related Project Mechanisms

| Parameter | Changes from RIIO-T2 to RIIO-T3 | Implications for risk |
|-----------------------------------|--|---|
| Pre-Construction Funding (PCF) | <p>Continue providing PCF in line with ASTI but not Early Construction Funding (ECF) – although will include Early Enablement Works (EEW). Based on 2.5% of total currently forecast project costs (open to expanding if evidence is provided). Will be assessed on a project-by-project basis rather than a portfolio basis proposed in SSMD.</p> <p>TOs will be able to access PCF through the Authority-triggered PCF Re-opener through two avenues: the CSNP-F and the Load Re-opener.</p> <p>Impact of DD on risk: Increased from SSMD</p> |  |
| Advanced Procurement of Equipment | <p>£4bn allowance introduced into the RIIO-ET2 price control in spring 2025 to allow TOs to transact and secure supply chain capacity in advance of Final Determinations.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Independent Technical Advisor | <p>New role with focus on engineering, procurement, and cost. Only apply to a subset of CSNP-F projects. Ofgem will make final decisions on eligibility and scope. The ITA will have a duty of care to Ofgem. The key to its success is the ability to operate at pace and reduce the regulatory burden. Enduring concerns over impact of limitations on data sharing.</p> <p>Increased risk as Ofgem may apply to other non-CSNP-F projects on a case-by-case basis</p> <p>Impact of DD on risk: Increased from SSMD</p> |  |
| CSNP-F Delivery incentive | <p>Reward: Lump sum for delivery before/on the Target Delivery Date (TDD) of 2.5% of forecast totex, and daily reward for early delivery linked to measure of consumer cost/benefit. Reward cap 10% of forecast totex, with another cap within the 10% of 30% of forecasted constraint costs.</p> |  |



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|------------------------------------|--|--|
| | <p>Penalty: Daily for late delivery calculated as half the daily reward. Penalty floor is 5% of forecast totex. Removal of supply chain constraints as delay events.</p> <p>Deadband: 12-month deadband after TDD without reward or penalty. Unclear and inconsistent terminology on date setting.</p> <p>Application: Unknown whether this will apply to non-CSNP-F projects.</p> <p>Impact of DD on risk: Increased from SSMD</p> | |
| LRR (LO) | <p>Expose TOs to potential risk of licence breach associated with the delivery of LRR projects when many of the drivers are outside of their control.</p> <p>Impact of DD on risk: New mechanism</p> | |
| Minimum Availability Standard (LO) | <p>Maintaining at least 93% circuit availability for the period up to 24 months following the date on which the asset is delivered.</p> <p>Impact of DD on risk: New mechanism</p> | |
| Cost assessment | <p>Continue to use a toolkit of methodologies to assess the different categories of costs that make up totex.</p> <ul style="list-style-type: none">• Shift away from 'Best View' approach proposed in SSMD and the BPG.• Flaws in econometric benchmarking are not giving appropriate weight to growth.• Modelling principles are not entirely clear or applied consistently. <p>Impact of DD on risk: Increased from SSMD</p> | |
| CAI UIOLI | <p>Provide upfront CAI allowances on a UIOLI basis in addition to baseline CAIs. Enables funding flexibility so TOs can access allowances at any time to support anticipated increase in CAI activities.</p> <p>Some limitations on funding are based on parameters used to set the UIOLI pot and lack of clarity on arrangements to top this up.</p> <p>Impact of DD on risk: New mechanism</p> | |








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| BSC Re-opener | <p>To address growth. Will be triggered mid-period if both totex and BSC outturn costs are above 15% of allowances.</p> <p>The threshold is too high making it unlikely to be triggered and the timing is too late to address the likely need for funding earlier in the T3 period. The combination of these factors serve to reduce the value of the new mechanism.</p> <p>Impact of DD on risk: New mechanism</p> |  |
| Load UIOLI (low materiality projects) | <p>Mechanism for supporting lower materiality load-related projects below £25m. Propose a Governance Document setting out how to monitor the use of the Load UIOLI including UIOLI adjustments (clawback) by Direction, which would not allow TOs CMA appeal rights.</p> <p>Impact of DD on risk: Increased from SSMD</p> |  |

Table A3: RIIO Outputs: High Quality Service

| Parameter | Changes from RIIO-T2 to RIIO-T3 | Implications for risk |
|----------------------------|---|---|
| Energy Not Supplied (ENS) | <p>Targets to be set individually for each network through one of two options: (1) strengthened targets in line with performance; or (2) deduct average performance across RIIO-ET1 and RIIO-ET2 from the targets established for RIIO-ET2. The impact on risk depends on the option adopted.</p> <p>Penalty collar of -0.38% RoRE (annual). Reward cap will depend on the maximum potential performance against each TO's target.</p> <p>VoLL is still to be determined to accurately reflect revised level of risk.</p> <p>Impact of DD on risk: Increased from SSMD</p> |  |
| Connections Capacity ODI-F | <p>Consulting on two options: (1) number of CP2030 projects connected by their target delivery dates; or (2) capacity added to the ET network in each year, measured in MW.</p> <p>A cap on rewards of 0.4% of RoRE and a collar on penalties of -0.2% of RoRE. Replaces the two existing connections ODI-Fs but Ofgem would consider evidence to retain the QoCs as an ODI-F but requires compelling assurance.</p> <p>Impact of DD on risk: New mechanism (Replacing previous mechanisms)</p> |  |
| SO:TO Optimisation | <p>Reward only but introduce a clawback mechanism that will penalise TOs for failing to fulfil the requests for enhanced services the NESO makes.</p> <p>Introduce eligibility criteria to determine whether an enhanced service as described in STCP11-4 is eligible for a reward or has transitioned to BAU.</p> <p>Also, note Ofgem is consulting on extended use to cover losses. Outcomes are unclear at this stage.</p> <p>Impact of DD on risk: Increased from SSMD</p> |  |






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| New Infrastructure Stakeholder Engagement Survey | <p>Reputational only. Propose to retain but introduce a common survey design with core defined areas. Intention to use the results to create a league table, ranking TOs' performance.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Network Innovation Allowance | <p>£20.7m proposed for SPT in RIIO-T3, an increase on T2.</p> <p>Exploring additional oversight tools, such as introducing an audit to ensure projects are demonstrating value for money. Changes to be reflected in an updated NIA Governance Document.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Innovative Delivery Incentive | <p>Reward for demonstrable significant consumer value provided in relation to five TO behaviour areas in the delivery of RIIO-ET3 outputs (range of 50-100bps of RoRE).</p> <p>Note, Ofgem is consulting on whether this mechanism (or the SO:TO ODI-F) should also be used to cover losses. Outcomes and associated impact on risk are unclear at this stage.</p> <p>Impact of DD on risk: New mechanism</p> |  |

Table A4: RIIO Outputs: Secure and Resilient Supplies








| Parameter | Changes from RIIO-T2 to RIIO-T3 | Implications for risk |
|--|---|---|
| Network Asset Risk Metric (PCD & ODI-F) | <p>Penalty for unjustified delivery of 2.5% in RIIO-T2.</p> <p>Plan to expand the coverage of the NARM incentive regime to cover more assets, increase standardisation, enhance assurance, and expand reporting requirements. Includes implementing a Funding Adjustment and Penalty Mechanism to hold network companies accountable for their investment decisions and apply a penalty for any unjustified under-delivery.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Cyber Resilience OT (PCD & UIOLI) Cyber Resilience IT (PCD) | <p>In RIIO-T2 individual projects were packaged as individual PCDs. A UIOLI allowance was provided for OT.</p> <p>For RIIO-T3 retain PCDs for all Cyber Resilience allowances proposed in the Draft Determinations.</p> <p>A NIS-R Cyber Resilience re-opener with a 2029 window.</p> <p>UIOLI allowance for years 1-3 of RIIO-T3 capped at 20% of total cyber resilience allowance.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Network Access Policy (LO) | <p>Retain T2 position i.e., failure to comply with NAP could constitute licence breach and lead to a fine.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Wider Works (PCD) Shared Infrastructure Schemes (PCD) | <p>Removed as replaced by components of the Load-Related Projects mechanisms.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> | N/A |
| Resilience & Operability (PCD) | <p>Funding for a range of SPT projects (£66.44m) was subject to PCDs in RIIO-T2.</p> <p>Review in context of overall resilience package.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |

Table A5: RIIO Outputs: Transition to Net Zero

| Parameter | Changes from RIIO-T2 to RIIO-T3 | Implications for risk |
|--|---|---|
| Net Zero Re-opener Development Fund (UIOLI) | <p>In RIIO-T2 this was a £12m fund with a cap of £2m per project.</p> <p>Retain but only for GD and GT. Remove for ET.</p> <p>Impact of DD on risk: Increased from SSMD (removed from assessment)</p> | N/A |
| Digitalisation Licence Condition (LO) | <p>Retain the approach in RIIO-ET2 with a licence condition that will require licensees to have a DSAP and to act in accordance with DBP when using relevant data.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Environmental Action Plan and Annual Environmental Report ODI-R & LO | <p>Retain and include KPI tables in the AER. Both the commentary and the KPI sections will have a set of minimum requirements.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |
| Business Carbon Footprint ODI-R | <p>Include within the AER ODI-R.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> | N/A |
| Environmental Scorecard ODI-F | <p>TO be removed in RIIO-T3 with metrics with customer value rolled into the AER.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> | N/A |
| Insulation and Interruption Gas leakage incentive ODI-F | <p>Reward and penalty based on CO₂ equivalent in RIIO-T2.</p> <p>Retain mechanism. Individual targets for each network calculated using each TO's proportional SBTi aligned IIG emissions reduction pathway.</p> <p>Reward/penalty calculated by applying the value of CO₂ equivalent for every ton over or below the target. TIM sharing factor applied.</p> <p>Impact of DD on risk: Increased from SSMD</p> |  |



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| Landscape Enhancement Initiative (UIOLI) | <p>Retain the LEI allowance to enable TOs to undertake a variety of work on localised landscape improvements. Encompasses only National Scenic Areas, National Parks, and National Landscapes and therefore limited relevance for SPT.</p> <p>Separate visual amenity PCD is removed.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> | |
| Maximising environmental benefit from non-operational land (ODI-R) | <p>Reputational only in RIIO-T2. Not being retained.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> | N/A |
| Net Zero Fund - SPT Only (UIOLI) | <p>£5m in RIIO-T2.</p> <p>Retain the fund for RIIO-T3 and set the scope only to deliver net zero workshops and to provide project planning and feasibility support to relevant community groups.</p> <p>Change in scope makes it un-useable in RIIO-T3.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> | |
| Environmental Enhancement Requirements (UIOLI) | <p>£7.5m in RIIO-T2. Not being retained.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> | N/A |
| Community Benefit Fund (Pass-Through) | <p>Reflects guidance for community funds for ET infrastructure which standardises funding levels on a per-asset basis for each project that falls in scope - £200,000 per km of overhead line, and £530,000 per substation, converter station, or switching station.</p> <p>Impact of DD on risk: New mechanism</p> | |
| Operational Transport Emissions Reduction (PCD) | <p>Set a target number of ZEVs and associated charging infrastructure in Final Determinations against different categories of ZEVs and associated infrastructure</p> <p>Impact of DD on risk: New mechanism</p> | |












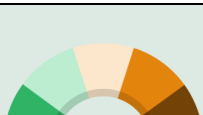
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|-----------------------------|---|---|
| CNSP Coordination (LO) | <p>Hold licensees to account for effective collaboration with the NESO in support of the development of the CSNP. Will introduce a Governance/ Guidance Document setting out detail on expectations placed upon the TO - will not impose unreasonable or unachievable obligations on TOs.</p> <p>Impact of DD on risk: New mechanism</p> |  |
| Carbon Compensation (UIOLI) | <p>Fund compensation for unavoidable GHG emissions, typically associated with capital construction, through carbon offsetting.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> |  |

Table A6: Uncertainty mechanisms

| Parameter | Changes from RIIO-T2 to RIIO-T3 | Implications for risk |
|--|--|---|
| Bad Debt (Reduction in recovered revenue) | Retain but review the definition of bad debt to ensure components remain relevant. Impact of DD on risk: Unchanged from SSMD |  |
| Business Rates (Pass-through) | Retain Impact of DD on risk: Unchanged from SSMD |  |
| Ofgem Licence Fee (Pass-through) | Retain Impact of DD on risk: Unchanged from SSMD |  |
| Pensions Scheme Established Deficit (Re-opener) | TOs to reflect the outcome of the recent triennial review effective 1 April 2024. Plan to carry policy review for funding PSED likely to be effective from 1 April 2027. Impact of DD on risk: Unchanged from SSMD |  |
| Tax Review (Re-opener) | Retain RIIO-T2 approach, with amendment to the tax clawback methodology to include interest accretion net of paydown within the definition of net debt. Impact of DD on risk: Unchanged from SSMD |  |
| Cost of debt Indexation | Introduce RAV-weighted assessment for all ET networks from the start of RIIO-ET1. Impact of DD on risk: Unchanged from SSMD |  |
| Cost of equity Indexation | Retain RIIO-T2 approach –based on UKRN guidance. Continue to use CAPM with updates to the key parameters. Impact of DD on risk: Unchanged from SSMD |  |
| Inflation indexation of RAV and Allowed Return (Indexation) | A portion of the RAV corresponding to the notionally assumed level of fixed-rate debt is delinked from inflation. The indexation of the RAV for ILD and equity remains unchanged Impact of DD on risk: Unchanged from SSMD |  |



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| Real Price Effects (Indexation) | <p>Retain RIIO-T2 approach.</p> <p>Incorporate 11 additional indices into the RPE model. Maintain same approach to weighting categories and indices. Not proposing materiality threshold on the outturn value of the RPE adjustment.</p> <p>Impact of DD on risk: Unchanged from SSMD.</p> | |
| Cyber Resilience OT/ Cyber Resilience IT (Re-openers) | <p>Become part of one mid-period resilience re-opener and maintain ability to direct a further re-opener window if required.</p> <p>Impact of DD on risk: Unchanged from SSMD.</p> | |
| Non-operational IT and Telecoms Capex (Re-opener) | <p>Replace with digitalisation re-opener like the RIIO-ED2 Digitalisation Re-opener.</p> <p>Impact of DD on risk: Unchanged from SSMD.</p> | |
| Physical Security (Re-opener) | <p>Become part of new Resilience Re-opener to reduce complexity.</p> <p>Impact of DD on risk: Unchanged from SSMD.</p> | |
| Coordinated Adjustment Mechanism (Re-opener) | <p>Retain but considering but increase flexibility and use by removing re-opener windows and include an Authority trigger.</p> <p>Impact of DD on risk: Reduced from SSMD.</p> | |
| Net Zero (Re-opener) | <p>Retain but now Authority only trigger.</p> <p>Impact of DD on risk: Increased from SSMD</p> | |
| Opex Escalator (Volume Driver) | <p>Remove for RIIO-T3.</p> <p>Impact of DD on risk: Reduced from SSMD</p> | N/A |
| Generation and Demand Connections (Volume Driver) | <p>Use of a single rate volume driver for individual components. Introduce an asymmetric stepped TIM approach to the volume driver mechanism.</p> <p>Impact of DD on risk: Increased from SSMD</p> | |
| Pre-Construction Funding (Re-opener) | <p>Retain for projects approved in the CSNP or deemed eligible for the Load Re-opener. Change in definition means inclusion of EEW.</p> <p>Impact of DD on risk: Unchanged from SSMD</p> | |



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| LOTI/ MSIPs (Re-openers) | Remove given now covered by a combination of CSNP-F and the two-track LRR. Impact of DD on risk: Unchanged from SSMD | |
| Access Reform (Re-opener) | Remove as access SCR was finalised. Impact of DD on risk: Unchanged from SSMD | N/A |
| Visual Amenity (Re-opener) | Remove for RIIO-T3 but consider re-introduction when setting future price controls. Impact of DD on risk: Unchanged from SSMD | N/A |
| Landscape Enhancement Initiative (UIOLI) | Retain with similar materiality - £7.5m per TO subject to justification in business plans. Separate visual amenity PCD is removed. Impact of DD on risk: Unchanged from SSMD | |
| Uncertain Non-load projects (Re-opener) | Remove as work will be completed in RIIO-T2 but open to considering case in SPT's business plan. Impact of DD on risk: Unchanged from SSMD | N/A |
| Resilience (Re-opener) | NEW – Mechanism to adjust allowances for activities not envisaged in setting RIIO-T3 – Authority triggered. Impact of DD on risk: Unchanged from SSMD. | |