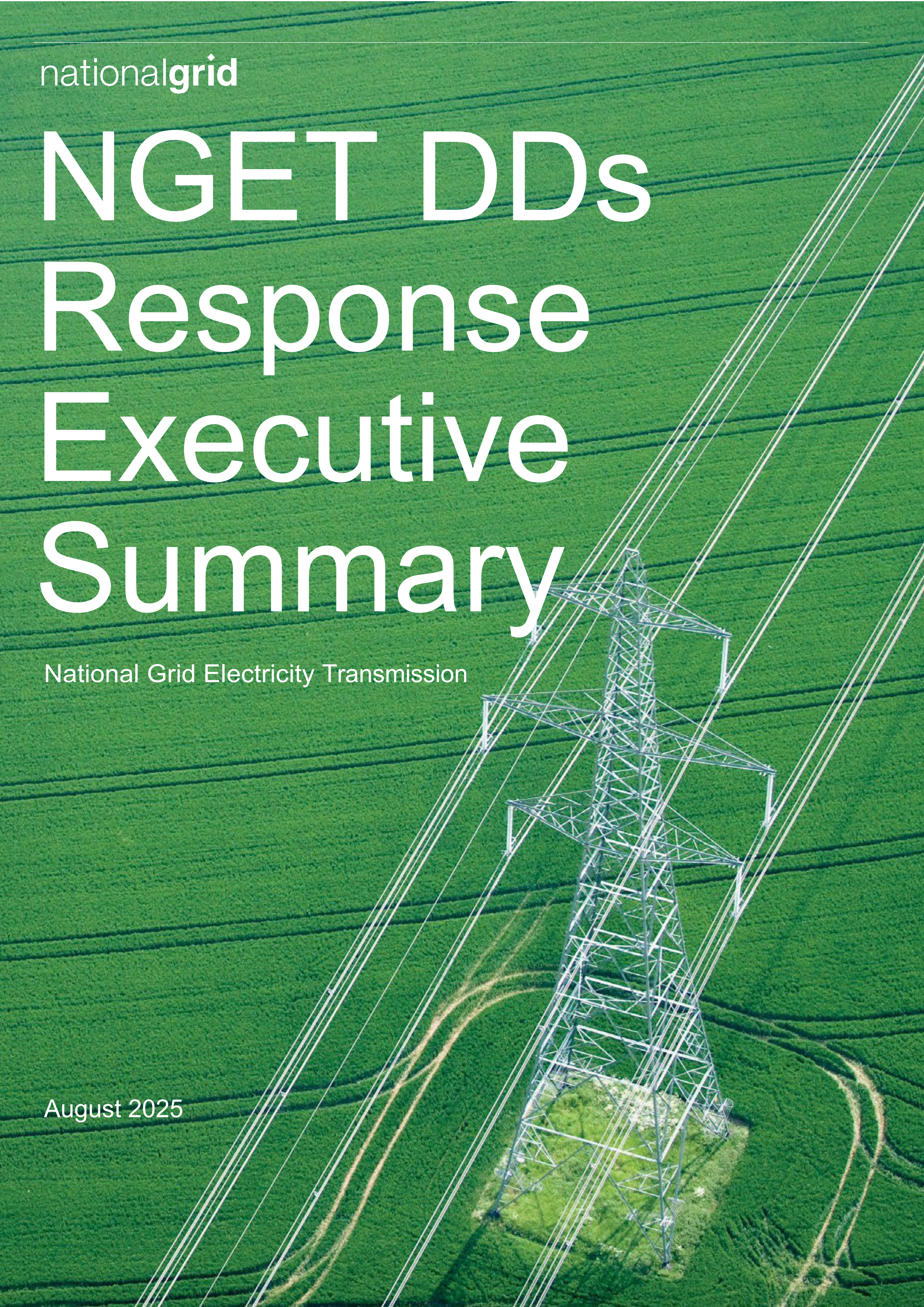
nationalgrid

NGET DDs Response Executive Summary

National Grid Electricity Transmission

August 2025



Introduction

This is the executive summary for the response from National Grid Electricity Transmission (NGET) to Ofgem's RIIO-3 Draft Determination (DD) consultation.

There are seven parts to NGET's full response as follows:

1. A short covering letter
2. **This Executive Summary of our response**
3. Our response to Ofgem's Draft Determination Overview document questions
4. Our response to Ofgem's Electricity Transmission sector document questions
5. Our response to Ofgem's NGET-specific document questions
6. Our response to Ofgem's Finance document questions
7. Our response to Ofgem's Impact Assessment document questions

We are also submitting appendices containing evidence and analysis to support our response.

Overview

National Grid is fully committed to playing our part in the national endeavour to deliver the Clean Power 2030 mission and realising the overall consumer and society wide benefits of achieving net zero. **We have a shared overall objective with Ofgem for RIIO-T3**, which you have set out as *"to implement a regulatory framework for energy networks that will help GB accelerate its transition to a clean power system by 2030"*.

With this in mind, **we welcome the continued positive intent from Ofgem.** Your commitment to an £80bn investment plan in electricity transmission, your recognition of the need for urgency in delivery, and the changes you have made to the financial package since the Sector Specific Methodology Decision (SSMD) are all very positive.

The Draft Determinations (DD) acknowledge the need for major investment in network transformation. However, **the changes made since the SSMD do not go far enough to provide adequate solutions**. A significant number of the proposals and the overall package are currently unacceptable. The DD puts Transmission Owners' plans at risk. This will prevent consumers, stakeholders, and the nation from gaining the benefits of these plans.

Significant changes are required by Final Determination to achieve a framework that meets Ofgem's stated (and shared) objective, so that the framework is:

1. **Investable**, by creating the conditions required to secure the unprecedented increase in investment; and
2. **Workable**, by streamlining the overly complex suite of funding mechanisms and changing the approach taken by Ofgem to making decisions in reopener processes. A workable framework enables Transmission Owners to recover the efficient costs of their investments and allows them to progress projects at the pace expected by stakeholders.

The Investability and workability of the framework are interrelated. Both are necessary for Transmission Owners to be able to **deliver their plans** to accelerate the decarbonisation of the energy system to the benefit of consumers, our customers, and our stakeholders.

The framework proposed at Draft Determination would underfund companies, forcing them to slow their pace of delivery to avoid exposing themselves to the risks from an unworkable framework.

As such, it would **jeopardise the Government's ambitions for Clean Power 2030 and economic growth.** Changes are required to help attract the necessary capital to the UK for Transmission Owners (TOs) to allow them to deliver their plans at pace and unlock the economic benefits of the energy transition.

The Draft Determination **does not recognise the practical realities of what is the biggest expansion of the electricity system in more than a generation.** It does not reflect the challenges for any organisation to increase output at the necessary speed, or the increased risk associated with doing so. It risks the achievement of the commitments we proposed and the associated benefits for consumers including bill reductions.

Given these consequences, throughout this response we have focussed on solutions and have provided evidence that further explains and supports our concerns and proposed remedies which better meet the interests of consumers.

Remedies are necessary for Final Determination to address the material concerns we have identified.

We welcome that Ofgem has signalled it is open to making changes based on stakeholder views. We are keen to continue working collaboratively and at pace, to address the problems with the Draft Determination. If RIIO-T3 is to support the fast-paced delivery of a 21st century energy infrastructure system for the UK, it is vital that we get it right.

Section One - Investability: Creating the conditions required to secure significant investment

We welcome the continued positive intent expressed by Ofgem on investability, and the setting of an objective for the framework to ensure companies can access efficient sources of financing to fund the transition to a clean power system. The transition requires an unprecedented increase in the level of investment in the electricity transmission sector: an £80bn investment programme to 2030, compared to £20bn in RIIO-T2.

Our business plan proposes a two and a half times increase in the level of investment from RIIO-T2, to an unprecedented level of up to £35bn over the five years to March 2031. It includes baseline investment of over £11bn and pipeline investments of around £24bn, to maintain and upgrade our existing networks.

The Sector Specific Methodology Decision (SSMD) emphasised the "step-change" in investment required to attract "sufficient and low-cost investment capital". Specifically, Ofgem identified that its new net zero duty required it to *"offer consistency, clear signals and direction so as to provide certainty and assurance to investors the projects are viable, investable and deliverable"*[1].

The changes to the financial package since the SSMD are a positive step. However, the Draft Determinations do not go far enough and they fail to create the conditions required to secure this investment. They do not provide the intended consistency and clear signals and direction for investors. They also do not meet Ofgem's objective to *"Create a competitive environment that protects consumers while attracting the scale of capital investment required, with fair but not excessive returns for investors."*[2]

This will have a detrimental impact on consumers. The Draft Determinations put at risk our collective Clean Power 2030 mission and the associated benefits for consumers and society, including reducing and stabilising bills, and improving energy security. It will also impede Government from meeting their ambition to drive economic growth.

The framework proposed at Draft Determination would underfund companies, forcing them to slow their pace of delivery to avoid exposing themselves to the risks from an unworkable framework.

Investors require earnings which keep pace with asset growth and nominal returns of 9-10% for high performing networks

Investors require earnings which keep pace with asset growth and nominal returns of 9-10% for high performing networks. Based on our analysis the Draft Determination package delivers on the first of these but is far short of achieving the second.

Our response to questions in the Draft Determination finance annex provides the evidence that makes clear these are the requirements which the framework must achieve. Our evidence includes:

- analysis of returns available in US utilities (9-10% nominal, which is a particularly important comparison given the size of the US energy investment requirement);
- recent announcements from UK listed water companies on targeted nominal returns (e.g. Severn Trent, Pennon both target >9%);
- inputs from the Global Infrastructure Investor Association (GIIA) into the recent Cunliffe review;
- recent announcements from Centrica of their Sizewell C investment. This provides a strong viewpoint of the type of returns and package required to attract capital into a long-term multi-billion investment

[1] Ofgem, RIIO-T3 Sector Specific Methodology Decision, Finance Annex, paragraph 1.6
[2] Ofgem RIIO-3 Draft Determinations Overview Document, page 96, paragraph 9.2.

(though less than half the investment needed in electricity transmission) under a traditional regulated asset base (RAB) model.

There is strong rationale for Ofgem's proposed cash solutions as the minimum required to support debt financeability and investability, and these should be maintained

The cash characteristics in Draft Determination are the minimum required to meet credit metrics and be acceptable to investors. Ofgem is right to target strong investment grade credit rating equivalent to Baa1/BBB+ in the Draft Determination, and by maintaining the RIIO-T2 targets, sends a powerful message to investors that strong access to debt capital is enabled and financial resilience is supported.

The long-term modelling Ofgem presents in the Draft Determination shows a declining profile on the credit metrics. Depreciation is an appropriate and sustainable solution and we would like to discuss this ahead of future price controls. We are supportive of the fast money solution as appropriate for RIIO-T3 given the significant level of investment, however would like to review a longer-term solution for future.

At Final Determination, Ofgem needs to retain its position on the cash characteristics in the RIIO-T3 framework

The Draft Determination is far short of achieving the requirement of 9-10% nominal returns because

- **the baseline return is too low;**
- **there is downside risk across the framework, including the position on totex and reopeners, that lowers expected returns further; and**
- **the incentive framework is incomplete and currently insufficient to bridge the gap to 9-10% nominal returns.**

The baseline return is too low

Ofgem concluded in the SSMD that cost of equity cross checks would be the primary tool for assessing investability at RIIO-T3. However, Ofgem has failed to properly consider cross check evidence and this is one of the key reasons Ofgem has proposed a baseline return that is not sufficient:

- **Ofgem cross checks:** Ofgem's own preferred cross checks from RIIO-2 have an average midpoint of 6.5%, which is 90bps higher than the Draft Determination cost of equity (CoE) for the electricity transmission sector.
- **Debt based cross checks:** Ofgem has discounted the strong evidence provided by new debt based cross checks, such as hybrid bonds, that consider the returns investors can achieve on lower risk debt capital. These cross checks all suggest a lower bound of 6.5%.
- **US utilities returns:** Ofgem has erroneously dismissed a 130bps difference in returns between the US and the UK as not "significantly higher"[3].
- **Sizewell C competitive CoE:** Centrica has stated that the framework agreed with Ofgem includes CoE of 10.8% real and estimates a rate of return of 10% nominal in the downside scenario[4]. While new nuclear build is intrinsically risky, this risk is mitigated by the significant regulatory protections that allow for a strong return even in the downside scenario. Given the type of investors targeted in this competitive process, this is an important real-world, market-tested benchmark for assessing RIIO-T3 returns.
- **Gas return:** Ofgem states in the Draft Determination that gas and electricity have the same level of risk, Ofgem have given the Gas and Electricity networks the same Beta, however Electricity Transmission has a lower CoE due to lower gearing making investment relatively less attractive.

[3] RIIO-3 Draft Determinations - Finance Annex, Ofgem, paragraph 3.111
[4] https://www.centrica.com/media/cfwb43au/centrica-2025-sizewell-c-presentation.pdf

Ofgem is not taking into account clear evidence that the total market return (TMR) should be set by considering changes in interest rates. Ofgem proposes only to increase TMR by 40bps from the RIIO-T2 level to 6.9%, while gilt rates have risen by 300-400bps. Ofgem has already stated, in SSMD, that the through the cycle approach *“may cause issues if there is a disconnect with our 'through cycle' estimate and current market required rates of return.”* The evidence demonstrates that Ofgem’s TMR will cause issues and put at risk investability of the framework.

This cross check and market information demonstrates issues with the investability of the base cost of equity. This is particularly pertinent as the allowed return must support an unprecedented scale up of total expenditure in the RIIO-T3 period. Our detailed response in the Finance Annex covers reasons why the Capital Asset Pricing Model (CAPM) calculation results in an insufficient CoE and detailed solutions.

At Final Determination, Ofgem must:

- **ensure the level of cost of equity and the incentive package together support a credible path to 9-10% nominal returns. Any shortfall in incentives will require increases in the base return;**
- **increase the cost of equity to at least 6% at 55% gearing to ensure an investable package. This can be achieved either by reviewing the CAPM parameters or selecting a point estimate at the top of the Ofgem range; and**

There is downside risk across the framework, including the position on totex and reopeners, that lowers expected returns further

In the Draft Determinations, Ofgem has systematically proposed disallowances which are not supported by evidence. In addition, the framework proposed does not take into account the practical challenges and risks associated with a two and a half times increase in delivery which is required to realise the biggest expansion of the electricity system in a generation, at a time when across the globe others are seeking to achieve the same which is creating a constrained supply chain. This issue and the shortcoming in the framework are covered in more detail in the next section of this document.

For any organisation increasing output at such speed is difficult and there are material risks at a portfolio level which are unavoidable as a result. Ofgem has proposed a framework which is not workable and increases downside risk by not taking these additional risks into consideration. Example proposals include:

- **risk and contingency allowances** to be reduced from 7.5% in RIIO-T2 to 5% in RIIO-T3. Ofgem has provided no evidence for this decision, which compounds an unjustified figure from RIIO-T2. We have shared real world evidence which shows allowances of at least [redacted]% are justified;
- **the lack of a workable reopener framework**. In the next section, we describe the issues on the workability of the framework and our proposed solutions. Ofgem’s proposed framework creates material risks and reduces expected returns. Risk is higher than in RIIO-T2 due to the volume of spending which will be approved through reopeners;
- **ongoing efficiency**, where Ofgem has proposed a 1% challenge although the evidence shows this level has not been achieved across the economy since 2008; and
- **a series of unjustified disallowances through a combination of the engineering assessment and the cost assessment processes**, which in totality amounts to a [redacted] shortfall in coverage for our efficient costs.

At Final Determination, Ofgem must follow the evidence and change the ongoing efficiency target to a maximum of 0.7%, increase risk and contingency allowances to at least [redacted]% and correct the unjustified [redacted] reduction in allowances through the cost assessment process. It needs to make changes to the framework to make it workable as set out in Section Two.

The incentive framework is incomplete and insufficient to bridge the gap to 9-10% nominal return

We welcome Ofgem's intent for a more powerful incentive framework than in RIIO-T2. Ofgem has, in setting out an illustrative RoRE range in the Draft Determination, suggested that there is potential for over 200bps of outperformance from cost and performance incentives.

However, the incentives package is weaker than Ofgem suggests, contains design flaws, is incomplete and lacks clear targets or understanding of how Ofgem will set them. Where Ofgem has published details, such as the Totex Incentive Mechanism, the proposals are for a less powerful framework, or it has increased the downside skew, such as on the Energy Not Served incentive.

Based on the Draft Determination, we cannot see a credible path for high-performing networks who generate additional value for consumers to bridge that gap to 9-10% returns. [redacted] This analysis does not take into account the additional downside risks as a result of a framework which is not workable and unjustified disallowances from reopener decisions.

Therefore, it is clear the framework does not meet Ofgem's objective to *"introduce a high-powered package of incentives to focus TOs on delivering their plan on time, supporting the connection of renewable generation and deploying other bold and innovative ways to help bring down energy bills for consumers."*[5]

This is a fundamental problem, given Ofgem itself explained the importance of the incentive framework in making the framework for electricity transmission attractive to investors[6].

In the Draft Determinations, Ofgem recognises the current immaturity of the incentive proposals. The DD explains Ofgem is open to working with stakeholders on the detailed design of the framework. We have therefore developed specific proposals for four important incentives in the package.

Our proposals incentivise TOs to deliver additional value for consumers and provides them with that any financial rewards are justified. At the same time, the design provides confidence to investors that the framework achieves Ofgem's objectives. They cover:

- **SO:TO incentive:** ensuring TOs continue to have strong incentives to take actions which save constraint costs for consumers, and that the scope of activities covered by the incentive is not narrowed;
- **Major projects incentive (CSNP-F):** ensuring dates are set appropriately and agreeing the scope of the projects to which it applies. The Draft Determination wording suggests the majority of projects covered by incentive do not deliver until after 2031 so it has limited impact on the investability of RIIO-T3);
- **Connections capacity incentive:** ensuring this is appropriately calibrated given the scale of challenge of achieving Clean Power 2030 and supporting economic growth; and
- **Innovative delivery incentive:** making the incentive more objective, which protects consumers and improves investor confidence in the regime.

Ofgem has proposed several changes to the Totex Incentive Mechanism (TIM) which means it is not effective at achieving either the objective of incentivising efficiency or managing risks. Two changes are required to the Draft Determination proposals:

- The stepped TIM adds complexity to the framework and is not required. The policy aims can instead by achieved with a simple 10% cap and collar applied with a TIM rate of 25% (the same rate as proposed by Ofgem). This will streamline the framework and provide strong efficiency incentives, which will benefit consumers.
- Major projects like ASTI have different risk profiles that should be recognised in the framework. Ofgem should continue its RIIO-T2 position and treat major projects separately with a 5% cap and collar and mechanism to apply this as a project level. This provides risk protection without blunting the efficiency incentives across the rest of the RIIO-T3 portfolio.

Ofgem needs to review the range and asymmetry of its totex and non-totex incentive package to ensure it is appropriately calibrated with reasonable opportunity for outperformance for high performing licensees (i.e. they are a "fair-bet"). They must recognise the level of stretch for TOs to deliver their plans given the unprecedented increase in scale of delivery.

---

[5] Ofgem RIIO-3 Draft Determinations Overview Document, page 11.

[6] Ofgem Investor Call, 1 July 2025 transcript, page 21-22, link

At Final Determination, Ofgem needs to implement incentives for the SO:TO, major projects, connections capacity and innovative delivery incentives, which reflect the detailed design features of the proposals we have set out in this response.

Ofgem does not need to change the RIIO-T2 project-level approach to Totex Incentive Mechanism (TIM) for ASTI projects but it has to apply this approach to other major projects with similar risk profiles and streamline the stepped TIM framework by maintaining a single sharing factor combined with a cap/collar.

Section Two – Workability: *Simplifying the funding framework, improving governance around reopener decision making and ensuring efficient cost are recovered*

Our plan is the biggest expansion of the electricity system in more than a generation. Over the next five years, TOs will navigate an uncertain and changing environment including managing evolving plans to meet the Clean Power 2030 target and responding to new Government initiatives such as the industrial strategy and creation of AI Growth Zones.

In our business plan, we emphasized the need for a regulatory framework that recognises the uncertainty and facilitates delivery at the pace customers and stakeholders expect. Ofgem also recognises this and has therefore set the objective to *"[introduce]… new regulatory mechanisms that will balance TOs' need to scale up in line with CP2030, and the subsequent accelerated transition to net zero, while still protecting consumers from undue risks"*[7].

The framework proposed at the Draft Determination would not meet this objective in two regards:

- the decisions which determine the baseline "ex-ante" allowances that are fixed at Final Determinations would not allow Transmission Owners to recover their efficient costs of delivery; and
- the framework for Ofgem to assess "reopener" submissions to provide allowances in period, for projects currently in our pipeline exposes Transmission Owners to significant and uncertain disallowances.

Framework for setting baseline ex-ante allowances

By Final Determination, we need a full assessment of the ex-ante allowances that allows us to continue our programme of work. The priorities are:

- **agreeing a route to secure approval for the c.£2bn of work which started in RIIO-T2 but will not deliver until the RIIO-T3 period**. Ofgem has been clear these costs must be covered but has not provided any details on when or how this will be achieved. Our response sets out how both problems can be resolved;
- **approve a non-load capex programme that ensures a resilient and reliable network**. We have listened to Ofgem's feedback about the methodology that underpins our asset health plan and have made adjustments in response to those concerns. In other areas, we have provided the additional evidence requested by Ofgem through our bilateral engagements so that these investments can now be approved. This includes highlighting the difference between Asset Management (which seeks to balance a wide set of objectives) and Asset Health (one driver within a mature Asset Management system), which is an important distinction we would like to discuss further with Ofgem;

The Draft Determination layers multiple levels of unjustified disallowances that together amount to unachievable levels of notional "efficiency". Our responses are set out in answer to the relevant consultation question. All need to be addressed, but there are six priority errors to correct at Final Determinations:

1. **we require adequate pre-construction funding** that reflect the realities of a 2.5 times increase in investment. Our evidence shows that this funding should be provided at 5% rather than the 2.5% proposed by Ofgem but not backed up by evidence. Any expansion in the definition of pre-construction funding must also be reflected in the allowance. Artificially limiting pre-construction funding will lead to delays, as project development will run more slowly;
2. **we require adequate risk and contingency allowances**. Ofgem proposes to reduce further the already insufficient risk allowances position from 7.5% to 5% of project costs based on no evidence.

[7] Ofgem RIIO-3 Draft Determinations – Electricity Transmission, page 148, paragraph 5.102.

Our analysis, based on project management best practice and real-life experience, shows at least [redacted]% is required;

3. **an incomplete framework for the recovery of indirect costs.** The baseline allocations in the proposed "use it or lose it" allowances are insufficient and based on errors in calculations. It is combined with a reopener approach that is only triggered after TOs have already experienced shortfalls in funding. Not funding indirect costs will delay delivery as TOs will be unable to scale. This needs to be replaced with a predictable scalar mechanism that operates automatically. This would reduce burdens for Ofgem and TOs and provide certainty that all efficient indirect costs will be recovered;
4. **a 1% ongoing efficiency target which bears no resemblance to the levels of productivity growth that have been achieved in the UK economy since the financial crisis almost 20 years ago**. Ofgem should reassess the evidence used to support its proposal and amend the target to no more than the already-ambitious target of 0.7% proposed in our business plan submission;
5. **methodological errors in the cost assessment process which must be corrected**. This includes an over reliance on RIIO-T2 data, and inconsistent approaches to benchmarking. The combination of these errors is material, amounting to a shortfall in allowances of more than [redacted]; and
6. Ofgem **excluded funding for legitimate efficient costs** in several areas that together amount to a de-facto increase in the ongoing efficiency target in excess of the - already unjustified - stated rate. For example, for reopeners with a direct cost of <£25m, Ofgem does not provide the associated indirect cost. No evidence is provided for this position, which when aggregated across the entire plan is material.

At Final Determination, Ofgem has to provide a full assessment of the ex-ante allowances needed and address the systematic errors within the Draft Determination cost assessment process.

Framework for in-period "re-openers"

Reflecting the uncertainty of our operating environment, £24bn of our £35bn plan is in the pipeline, to be assessed by Ofgem through in period uncertainty mechanisms including re-openers. The framework for in-period submissions/re-openers is therefore critical.

Under Ofgem's proposals (as with the current regime), delivering at the pace required for CP2030 and that our customers and consumers want, requires us to invest ahead of securing Ofgem approvals. This is because of the length of time it takes for Ofgem to undertake the assessment process.

As a result, we are exposed to the risk of significant costs being disallowed – due to a lack of clear policy positions that are applied consistently, and Ofgem not appropriately considering the full range of relevant factors when reaching its conclusions.

Our concerns are not theoretical but are informed by recent experience of 'reopeners' in RIIO-T2:

- on average it takes 12 months for Ofgem to make decisions. We have already advanced [redacted] of spend at risk, without certainty the necessary allowances will be approved;
- we have examples of recent proposals where Ofgem has consulted on 30-60% disallowances on the basis of funding alternative technologies to those already being deployed (because optioneering decisions take place well in advance of securing regulatory approval).

This is a material issue. Without action, it would undermine both the investability of the regime and the pace at which TOs are able to work:

- Based on one of the defacto policies emerging through reopener decisions (switchgear technology), we estimate a risk of [redacted] disallowance across the RIIO-T3 plan. This represents a [redacted] reduction in expected return. If not corrected, the framework would have a significant negative impact on investor sentiment and the ability to attract the necessary capital to the UK;
- The only way for TOs to manage this risk is to slow the pace of delivery and wait for final confirmation of allowances from Ofgem before progressing investments. This is clearly not in consumers' interests and would jeopardise the Government's objectives for economic growth and decarbonisation.

Since the Draft Determination was published, we have had constructive discussions with you and are confident that these problems can be solved. We welcome the agreement from Ofgem that there are two workability issues which we need to resolve, and the commitment to work with industry on developing the necessary solutions:

1. **A "fix forward" issue.** This ensures Ofgem has a clear set of policies for project optioneering which cover both the engineering and other factors as part of a *"comply or explain"* style approach. Before they can be implemented, such policies need to be subject to consultation to get inputs from relevant stakeholders, so the range of community and other perspectives are heard. A transition to such policies is needed given the development timescales of electricity transmission projects;
2. **An "in-flight" portfolio issue.** This finds a way to progress projects where there are currently disagreements on optioneering, but where new policies cannot be applied without causing significant schedule or cost impact that would impact customers, consumers and wider stakeholder objectives.

Reflecting these issues, we propose a range of solutions:

- **moving to joint management of a pipeline of submissions instead of fixed six-monthly application windows.** This allows us both to better plan our resources for project development and scrutiny and avoid administrative delays;
- **introducing guaranteed timetables for decisions.** This helps accelerate investments by creating certainty on process and avoiding exposing networks to excessive risk. Under our proposal, if Ofgem does not make a decision in time, they are deemed to support;
- **strengthening controls over policy making to deliver assessments that consider all relevant factors.** This supports Ofgem's desire to shift the emphasis more to upfront mechanisms and agreements, and to prioritise speed, efficiency and adaptability over traditional granular assessments of need. As a priority, we have agreed to establish such an approach to deal with the "in-flight" portfolio issue;
- **establishing stronger Ofgem governance and communications with networks.** This allows us both to manage the questions that will emerge as Ofgem rightly scrutinises our proposals. It will help maintain robust challenges without distracting from accelerating the energy transition; and
- **streamlining and making the set of "reopeners" more proportionate, including introducing more automatic mechanisms.** This reduces the resource burdens for "reopeners" and ensures they cover all possible investments and is in line with Ofgem's objective to simplify RIIO wherever possible.

By Final Determination, Ofgem needs to implement proposals for the reopener framework and the approach to making decisions in order to implement a "fix forward" solution, and convene an Ofgem-chaired, Director-level governance group to resolve the "in-flight" portfolio. This must provide allowances to cover the efficient costs of projects, taking into account the full range of factors and without applying new policies or context to historic optioneering decisions.

Section Three - Deliverability: *realising the consumer and stakeholder benefits of Transmission Owners' plans require an investable and workable framework*

The Draft Determinations recognise the scale of change for the sector in moving from RIIO-2 to RIIO-3 noting that *"RIIO-3 is unlike any other regulatory cycle"*. It also notes that we are *"at a pivotal moment…[where] the decisions we make now will shape the infrastructure that underpins our clean energy future – ensuring that consumers, both today and tomorrow, are protected and well served"*[8].

We agree with Ofgem in the scale of change that RIIO-T3 will require. However, the Draft Determination does not recognise the practical realities of what this entails, the challenges for any organisation to increase output at the necessary speed, or the increased risk associated with doing so.

There are real world consequences of the framework proposed at the Draft Determination. It risks the achievement of the commitments we proposed in our business plan and the associated benefits for consumers.

[8] Ofgem, RIIO-3 Draft Determinations Overview Document

Our business plan set out an ambitious plan to increase our capital delivery by more than two and a half times, up to £35bn. We proposed more than 50 specific commitments in our RIIO-T3 plan, which we developed based on extensive engagement with more than 12,000 stakeholders and consumers. These include to:

- connect 19GVA of new demand connections, which is equivalent to 1/3 of GB peak demand;
- connect 35GW of generation and storage, doubling the rate of connection compared to RIIO-T2;
- upgrade c.3500km of our network and deliver c.1,100km of new circuits;
- construct 25 new substations and upgrades, more than 10% of our existing fleet; and
- deliver 10% or more biodiversity net gain on this unprecedented capital programme and reduce our own carbon emissions by 50% of 2019 levels (scope 1 and 2), including through initiatives to use 50% low emission concrete and steel by 2030.

Without an investible and workable framework, the benefits which Ofgem has set out in its RIIO-3 Impact Assessment will not be realised, because the policy objectives are not realised[9]. Ofgem's impact assessment identifies a range of benefits of accelerating energy network investment, including:

- net reductions in consumers electricity bills as a result of reductions of constraint costs of c.£5bn;
- cost reductions for consumers, by reducing the proportion of wholesale costs that are linked to gas prices, which are still at historically high levels;
- strategic benefits associated with the transition towards net zero such as security of supply and avoiding inherent volatility of global energy markets;
- the contribution of network build to supporting the move to a clean power system, which will reduce the amount of GHG emissions from the generation of electricity; and
- wider economic benefits, specifically the impact on growth. The potential for a positive impact on economic growth, Our estimates are that the NGET RIIO-T3 business plan would support more than 55,000 jobs by the end of the decade. Across the GB electricity transmission sector the sector's plans would have a positive impact of >£5bn on UK GDP by 2030 and more than £11bn in the long term[10].

National Grid Electricity Transmission remains fully committed to delivering the largest expansion of the electricity system in a generation and to play our role in achieving the Clean Power 2030 mission. We share Ofgem's ambition to accelerate the transition to a decarbonised, secure and affordable energy system, and stand ready to mobilise the skills, capital and supply-chain partnerships necessary to connect record volumes of renewable generation, reinforce the grid and drive down consumer bills.

However, this ambition and Ofgem's stated objectives can only be realised if the final RIIO-T3 framework is both investable and workable. As currently set out, Ofgem's draft determinations underfund essential projects, layer on unmanageable downside risk and create process complexity that threatens timely delivery. To unlock the £80 billion of capital the transition requires, Ofgem's Final Determinations must provide a credible path to fair returns, adequate risk allowances, streamlined reopeners and a high-powered incentive package that rewards exceptional performance.

We therefore ask Ofgem to make the significant changes outlined in our response and to continue the constructive dialogue already under way.

[9] RIIO-3 Draft Determinations Impact Assessment

[10] Data compiled from review of NGET, Scottish Power Energy Networks and SSE Transmission RIIO-T3 submissions and supporting analysis

nationalgrid

National Grid plc National Grid House, Warwick Technology Park, Gallows Hill, Warwick.
CV34 6DA United Kingdom Registered in England and Wales

nationalgrid.com